

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

REPORT ON THE AUDIT OF FINANCIAL
STATEMENTS IN ACCORDANCE
WITH OMB CIRCULAR A-133

YEAR ENDED SEPTEMBER 30, 2012

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

BASIC FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2012

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2012

TABLE OF CONTENTS

	<u>Page No.</u>
I. Independent Auditors' Report	1
II. Management's Discussion and Analysis	5
III. Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets (Deficiency)	12
Statement of Activities	13
Governmental Fund Financial Statements:	
Balance Sheet	14
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Deficiency	15
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities	17
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets	18
Statement of Changes in Fiduciary Net Assets	19
Discretely Presented Component Units:	
Statement of Net Assets	20
Statement of Revenues, Expenses, and Changes in Net Assets	21
Notes to the Basic Financial Statements	22
IV. Required Supplementary Information - Other than Management's Discussion and Analysis:	76
Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund	77
Notes to Required Supplementary Information - Budgetary Reporting	78
V. Other Supplementary Information:	82
Combining Schedule of Expenditures by Account - All Governmental Funds	83
Major Governmental Fund - General Fund	84
Major Governmental Fund:	
Combining Schedule of Balance Sheet Accounts - General Fund	86
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances (Deficit) - General Fund	87

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2012

TABLE OF CONTENTS, CONTINUED

	<u>Page No.</u>
V. Other Supplementary Information, Continued:	
Major Governmental Fund - Grants Assistance Fund	88
Major Governmental Fund:	
Combining Balance Sheet - Grants Assistance Fund	89
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) - Grants Assistance Fund	90
Major Governmental Fund - Department of Public Lands	91
Major Governmental Fund - Private Grants Fund	92
Nonmajor Governmental Funds - Special Revenue Funds	93
Nonmajor Governmental Funds - Capital Projects Funds	95
Nonmajor Governmental Funds:	
Combining Balance Sheet - Special Revenue Funds	96
Combining Balance Sheet - Capital Projects Funds	98
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) - Special Revenue Funds	99
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) - Capital Projects Funds	101
Fiduciary Funds:	102
Combining Statement of Fiduciary Net Assets (Deficiency)	104
Combining Statement of Changes in Fiduciary Net Assets (Deficiency)	105

INDEPENDENT AUDITORS' REPORT

Honorable Eloy S. Inos
Governor
Commonwealth of the Northern Mariana Islands:

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands (CNMI) as of and for the year ended September 30, 2012, which collectively comprise the CNMI's basic financial statements as set forth in Section III of the foregoing table of contents. These financial statements are the responsibility of the CNMI's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Northern Mariana Islands Retirement Fund, the CNMI Group Health and Life Insurance Trust Fund, and the CNMI Workers' Compensation Commission, which represent 96%, 97% and 80%, respectively, of the assets, net assets/fund balance and revenues of the aggregate remaining fund information, and the Commonwealth Utilities Corporation, the Northern Marianas College, the Public School System, and the Marianas Visitors Authority, which represent 41%, 38% and 69%, respectively, of the assets, net assets and operating revenues of the CNMI's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Northern Mariana Islands Retirement Fund, the CNMI Group Health and Life Insurance Trust Fund, the CNMI Workers' Compensation Commission, the Commonwealth Utilities Corporation, the Northern Marianas College, the Public School System, and the Marianas Visitors Authority, is based on the reports of the other auditors.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CNMI's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

The Northern Mariana Islands Retirement Fund has not evaluated the collectability of notes receivable and, accordingly, has not provided for allowance for uncollectible amounts. In our opinion, based on our audit and the reports of other auditors, accounting principles generally accepted in the United States of America require that an adequate allowance be provided for uncollectible receivables. The effects of that departure on the financial statements are not reasonably determinable. The financial activities of the Northern Mariana Islands Retirement Fund are included in the CNMI's aggregate remaining fund information and represent 95%, 103% and 79%, respectively, of the assets, net assets/fund balance and revenues of the aggregate remaining fund information.

The CNMI Workers' Compensation Commission has excluded its obligation for estimated workers' compensation and special disability claims from liabilities. In our opinion, based on our audit and the reports of other auditors, accounting principles generally accepted in the United States of America require that such obligations be included. The effects of that departure on the financial statements are not reasonably determinable. The financial activities of the CNMI Workers' Compensation Commission are included in the CNMI's aggregate remaining fund information and represent 0.6%, 0.6% and 0.5%, respectively, of the assets, net assets/fund balance and revenues of the aggregate remaining fund information.

The financial statements of the Commonwealth Healthcare Corporation have not been audited. The financial activities of the Commonwealth Healthcare Corporation are included in the CNMI's basic financial statements as a discretely presented component unit and represent 3%, 0.1% and 14% of the assets, net assets and operating revenues, respectively, of the CNMI's aggregate discretely presented component units.

In our opinion, based on our audit and the reports of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had the Northern Mariana Islands Retirement Fund recorded an allowance for uncollectible receivables and had the CNMI Workers' Compensation Commission included its obligation for estimated workers' compensation and special disability claims payable, as discussed in the third and fourth paragraphs above, the financial statements referred to previously present fairly, in all material respects, the financial position of the aggregate remaining fund information for the Commonwealth of the Northern Mariana Islands as of September 30, 2012, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, based on our audit and the reports of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had the financial statements of the Commonwealth Healthcare Corporation been audited, as discussed in the fifth paragraph above, the financial statements referred to previously present fairly, in all material respects, the financial position of the aggregate discretely presented component units for the Commonwealth of the Northern Mariana Islands as of September 30, 2012, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Finally, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Commonwealth of the Northern Mariana Islands as of September 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 17 to the financial statements, the beginning net assets/fund balances of the governmental activities, the aggregate discretely presented component units and the Department of Public Lands major fund have been restated for the correction of errors.

The CNMI's plans regarding its General Fund deficit position and the related governmental activities net deficiency position are described in note 14 to the financial statements.

The accompanying financial statements of the Northern Mariana Islands Retirement Fund have been prepared assuming that the Northern Mariana Islands Retirement Fund will continue as a going concern. As discussed in note 18 to the financial statements, the Final Settlement Agreement between the Northern Mariana Islands Retirement Fund and the CNMI government and other dependents was approved by the U.S. District Court on September 30, 2013. The residual assets of the Northern Mariana Islands Retirement Fund after the payments of refunds pursuant to this Final Settlement Agreement shall be transferred to the Settlement Fund. The financial statements of the Northern Mariana Islands Retirement Fund do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2014 on our consideration of the CNMI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 11, as well as the Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund and notes thereto, as set forth in Section IV of the foregoing table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CNMI's financial statements. The Other Supplementary Information, as set forth in Section V of the foregoing table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management of the CNMI and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the reports of other auditors, the Other Supplementary Information, as set forth in Section V of the foregoing table of contents, is fairly stated in all material respects in relation to the financial statements as a whole.

Debit & Jones LLC

February 27, 2014



Office of the Secretary Department of Finance

P.O. Box 5234 CHRBSAIPAN, MP 96950

TEL. (670) 664-1100 FAX: (670) 664-1115

Management's Discussion and Analysis (MD&A) Year Ended September 30, 2012

Our discussion and analysis of the Commonwealth of the Northern Mariana Islands (the CNMI) financial performance provides an overview of the CNMI's financial activities for the fiscal year ended September 30, 2012. Please read it in conjunction with the CNMI's financial statements, which follow this section. Fiscal year 2011 comparative information has been included where appropriate for comparative purposes.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2012, the CNMI's total net deficiency decreased by \$10.3 million, to a net deficiency position of \$225.1 million, which represents a decrease of approximately 4.4% from the restated net deficiency position at the beginning of the year.
- During the year, the CNMI's expenses for governmental activities were \$231.0 million, including expenses recorded for payments made or due to the autonomous agencies, and were funded in part by program revenues of \$111.5 million, further funded with taxes and other general revenues that totaled \$129.8 million. The difference between total revenues of \$241.3 million and total expenses of \$231.0 million is what resulted in the \$10.3 million decrease in net deficiency.
- At September 30, 2012, the General Fund reported an unassigned fund deficit of \$78.3 million, which is a decrease in the unassigned fund deficit of 77.7% from the prior year's reported unassigned fund deficit of \$351.3 million, which result from the Settlement Agreement discussed in the "Economic Factors and Next Year's Budget" section of this MD&A.
- For budgetary reporting purposes, General Fund actual revenues were higher than final estimates by \$11.7 million, or 9.6%, while reported actual expenditures exceeded final estimated appropriations by \$2.1 million, or 1.8%. These amounts do not include transfers to and from other funds, nor does it include the receipt or use of long-term debt proceeds.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the CNMI and its component units using the integrated approach as prescribed by GASB Statement No. 34. Included in this report are governmental-wide statements for the governmental activities of the CNMI, along with the CNMI's discretely-presented component units. The government-wide financial statements present the complete financial picture of the CNMI from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the CNMI (including infrastructure capital assets) as well as all liabilities (including all long-term debt).

Reporting the CNMI as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most frequently asked questions about the CNMI's finances is, "Has the CNMI's overall financial condition improved, declined or remained steady over the past year?" The Statement of Net Assets and the Statement of Activities report information about the CNMI as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two government-wide statements report the CNMI's net assets and changes in them from the prior year. You can think of the CNMI's net assets - the difference between assets and liabilities - as one way to measure the CNMI's financial condition, or position. Over time, increases or decreases in the CNMI's net assets are indicators of whether its financial health is improving, deteriorating, or remaining steady. However, you must consider other nonfinancial factors, such as changes in the CNMI's tax base, the condition of the CNMI's roads and infrastructure, and the quality of services to assess the overall health and performance of the CNMI.

As mentioned above in the Statement of Net Assets and the Statement of Activities, we divide the CNMI into two kinds of activities:

- Governmental activities - Most of the CNMI's basic services are reported here, including public safety, general administration, streets, and parks. Income taxes, business gross receipt taxes, other taxes and fees, fines, and federal grants finance most of these activities.
- Discretely-presented component units - These account for activities of the CNMI's reporting entities that do not meet the criteria for blending within the CNMI's primary government. These discretely-presented component units are often referred to as autonomous agencies.

Reporting the CNMI's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the CNMI as a whole. Some funds are required to be established by law or regulation and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other monies.

Governmental funds - Most of the CNMI's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the CNMI's general government operations and the basic service it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the CNMI's programs. The differences of results in the Governmental Fund financial statements to those in the Government-Wide financial statements are explained in a reconciliation following each Governmental Fund financial statement.

Fiduciary funds - When the CNMI is responsible for assets that - because of a trust arrangement or other fiduciary requirement - can be used only for trust beneficiaries or others parties, such as pensions and other employee benefit trust funds and agency funds. The CNMI is responsible for ensuring that the assets reported in these funds are used for their intended purpose. All of the CNMI's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the CNMI's government-wide financial statements because the CNMI cannot use these assets to finance operations.

Additional information on the restatement of the beginning net assets/fund balances of the governmental activities, the aggregate discretely presented component units and the Department of Public Lands major fund can be found in note 17 to the financial statements.

A FINANCIAL ANALYSIS OF THE CNMI AS A WHOLE

Net Deficiency

The CNMI's governmental activities net deficiency, as restated, decreased from \$235.4 million to a net deficiency of \$225.1 million, a decrease in the deficit of 4.4%, between fiscal years 2011 and 2012.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2012

A summary of net deficiency (condensed) is presented below, with comparable balances for fiscal year 2011:

	Governmental Activities <u>2012</u>	(As Restated) Governmental Activities <u>2011</u>	<u>Change</u>
Current assets	\$ 54,851,756	\$ 55,500,692	\$ (648,936)
Capital assets, net	204,184,547	203,733,528	451,019
Other noncurrent assets	<u>3,953,308</u>	<u>4,025,973</u>	<u>(72,665)</u>
Total assets	<u>262,989,611</u>	<u>263,260,193</u>	<u>(270,582)</u>
Long-term debt outstanding	95,614,225	98,917,431	(3,303,206)
Other liabilities	<u>392,426,114</u>	<u>399,694,873</u>	<u>(7,268,759)</u>
Total liabilities	<u>488,040,339</u>	<u>498,612,304</u>	<u>(10,571,965)</u>
Net deficiency:			
Invested in capital assets, net of related debt	112,505,725	109,256,064	3,249,661
Restricted net assets	13,266,289	5,209,811	8,056,478
Unrestricted net assets	<u>(350,822,742)</u>	<u>(349,817,986)</u>	<u>(1,004,756)</u>
Total net deficiency	<u>\$ (225,050,728)</u>	<u>\$ (235,352,111)</u>	<u>\$ 10,301,383</u>

Significant changes from 2011 in the Statement of Net Assets (Deficiency) include a decrease in long-term debt outstanding as a result of debt service payments and a decrease in tax rebates payable due to payments of the rebate tax liability.

Changes in Net Deficiency

For the year ended September 30, 2012, net deficiency of the primary government changed as follows, with comparable amounts for fiscal year 2011:

	Governmental Activities <u>2012</u>	(As Restated) Governmental Activities <u>2011</u>	<u>Change</u>
Revenues:			
Program revenues	\$ 111,520,048	\$ 158,910,398	\$ (47,390,350)
Taxes and other general revenues	<u>129,767,383</u>	<u>114,689,123</u>	<u>15,078,260</u>
Total revenues	<u>241,287,431</u>	<u>273,599,521</u>	<u>(32,312,090)</u>
Expenses:			
Capital projects	899,761	1,543,615	(643,854)
Health	34,828,647	83,026,299	(48,197,652)
Public safety and law enforcement	25,693,286	29,545,686	(3,852,400)
General government	26,508,246	13,324,196	13,184,050
Community and social services	21,938,630	25,375,373	(3,436,743)
Other elected officials	6,429,277	6,075,302	353,975
Utilities	10,945,447	1,766,762	9,178,685
Public works	16,307,910	16,744,894	(436,984)
Lands and natural resources	11,385,019	13,192,014	(1,806,995)
Legislative branch	5,210,254	5,449,469	(239,215)
Judicial branch	4,257,399	3,821,507	435,892
Education	4,004,919	5,223,617	(1,218,698)
Unallocated interest	5,855,016	6,121,320	(266,304)
Economic development	1,300,333	3,018,188	(1,717,855)
Payments to autonomous agencies	<u>55,421,904</u>	<u>78,061,718</u>	<u>(22,639,814)</u>
Total expenses	<u>230,986,048</u>	<u>292,289,960</u>	<u>(61,303,912)</u>
Increase (decrease) in net deficiency	10,301,383	(18,690,439)	28,991,822
Net deficiency, beginning of year	<u>(235,352,111)</u>	<u>(216,661,672)</u>	<u>(18,690,439)</u>
Net deficiency, end of year	<u>\$ (225,050,728)</u>	<u>\$ (235,352,111)</u>	<u>\$ 10,301,383</u>

The CNMI's governmental activities' decrease in net deficiency of \$10.3 million represents a 4.4% decrease from the prior year. The results indicate the CNMI's financial condition, as a whole, improved in the current year compared to the previous two years. Significant changes from 2011 in the Statement of Activities include increases in income, gross receipts, excise, hotel and other taxes resulting from an increase in visitor arrivals to the CNMI and a surge in the tourism industry.

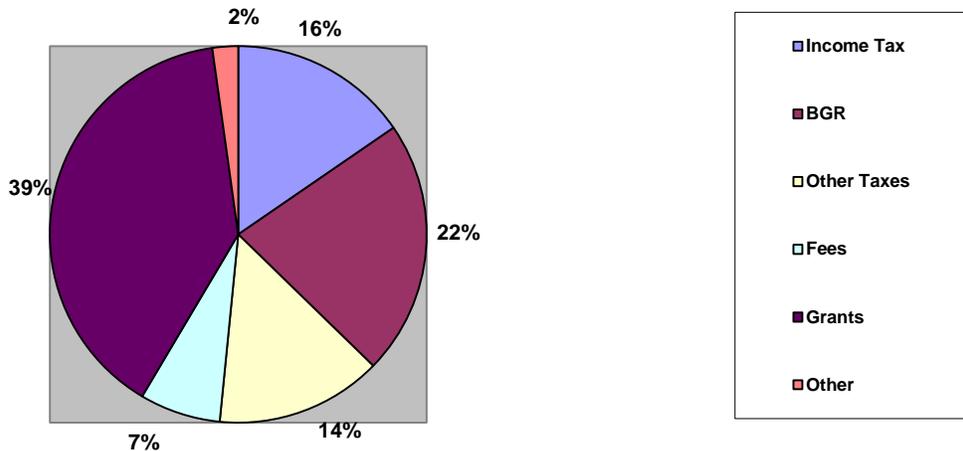
Governmental Activities

To aid in the understanding of the Statement of Activities some additional explanation is given.

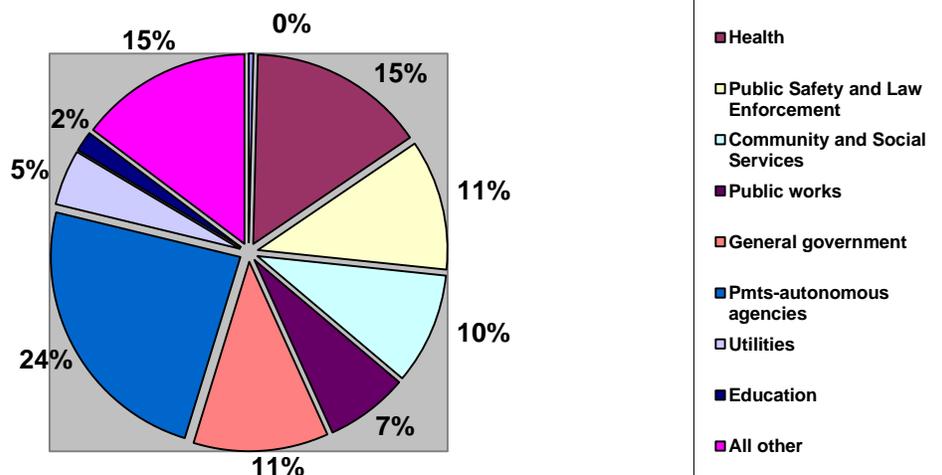
Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the CNMI's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note all taxes are classified as general revenue even if restricted for a specific purpose.

For the year ended September 30, 2012, the CNMI's governmental activities were funded as follows:

Governmental Activities Sources



Governmental Activities Uses



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2012

For the year ended September 30, 2012, total expenses for governmental activities amounted to \$231.0 million. Of these total expenses, taxpayers and other general revenues funded \$129.8 million, while those directly benefiting from the activities funded \$94.8 million from grants and other contributions and \$16.7 million from charges for services, with the remaining expenses under revenues decreasing the net deficiency.

Net Revenue (Expense) of Governmental Activities

	<u>Total Expense of Services</u>	<u>Net Revenue (Expense) of Services</u>	<u>Total Expense of Services</u>	<u>Net Revenue (Expense) of Services</u>	<u>Total Expense of Services</u>	<u>Net Revenue (Expense) of Services</u>
	<u>2012</u>	<u>2012</u>	<u>2011</u>	<u>2011</u>	<u>Change</u>	<u>Change</u>
Capital projects	\$ 899,761	\$ (61,546)	\$ 1,543,615	\$ -	\$ (643,854)	\$ (61,546)
Health	34,828,647	(8,577,257)	83,026,299	(37,413,394)	(48,197,652)	28,836,137
Public safety and law enforcement	25,693,286	(15,625,579)	29,545,686	(16,053,979)	(3,852,400)	428,400
General government	26,508,246	(6,923,331)	13,324,196	3,082,322	13,184,050	(10,005,653)
Community and social services	21,938,630	(3,817,926)	25,375,373	(1,510,686)	(3,436,743)	(2,307,240)
Public works	16,307,910	148,550	16,744,894	(3,071,970)	(436,984)	3,220,520
Utilities	10,945,447	(8,880,619)	1,766,762	(1,533,830)	9,178,685	(7,346,789)
Education	4,004,919	(3,724,445)	5,223,617	(4,631,444)	(1,218,698)	906,999
Payments to autonomous agencies	55,421,904	(48,441,816)	78,061,718	(49,346,156)	(22,639,814)	904,340
All others	<u>34,437,298</u>	<u>(23,562,031)</u>	<u>37,677,800</u>	<u>(22,900,425)</u>	<u>(3,240,502)</u>	<u>(661,606)</u>
Total	\$ <u>230,986,048</u>	\$ <u>(119,466,000)</u>	\$ <u>292,289,960</u>	\$ <u>(133,379,562)</u>	\$ <u>(61,303,912)</u>	\$ <u>13,913,562</u>

As of October 1, 2011, CNMI Public Law 16-51 created the Commonwealth Healthcare Corporation, which is responsible for providing healthcare services in the CNMI. Healthcare services had previously been accounted for within the General Fund of the CNMI. As a result, healthcare services expense significantly decreased from 2011.

A FINANCIAL ANALYSIS OF THE CNMI'S FUNDS

As the CNMI completed its 2012 fiscal year, the governmental funds reported a combined fund deficit of \$56.5 million, when compared with the prior year restated fund deficit of \$329.3 million, which is a decrease in the deficit of \$272.8 million, or 82.9%. This decrease in the deficit is due, in large part, to the elimination of the pension liability as a result of the Settlement Agreement and continued reduction in governmental expenditures.

Individual fund highlights include:

- For the year ended September 30, 2012, the General Fund's total fund deficit decreased by \$271.0 million or 78.7%, to a total fund deficit of \$73.3 million, while the total unassigned fund deficit decreased by \$273.0 million or 77.7%, for a total fund deficit of \$78.3 million.
- The Grants Assistance Fund's revenues and expenditures netted to approximately a \$0.5 million decrease in fund balance, providing a remaining fund balance for grant expenditures of \$4.9 million.
- For the year ended September 30, 2012, the Department of Public Lands' total fund balance increased by \$0.17 million or 3.4%, to a total fund balance of \$5.1 million.
- The Private Grants Fund's revenues and expenditures netted to approximately a \$0.16 million decrease in fund deficit, providing a fund deficit of \$0.17 million.

General Fund Budgetary Highlights

Original and final revenue estimates remained constant at \$121.9 million, while original expenditure estimates remained constant at \$119.7 million. The General Fund's actual revenues of \$133.5 million were more than the final estimates by \$11.7 million, a variance of 9.6%, mainly due to higher than anticipated contributions from component units and other revenues. The General Fund's actual expenditures (including transfers out) of \$121.9 million exceeded appropriations by \$2.1 million, a variance of 1.8%, due mainly to unanticipated expenditures that significantly increased for government utilities, medical referral and the local match for Medicaid.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of September 30, 2012, the CNMI had \$204.2 million invested in capital assets, net of depreciation where applicable, including land, infrastructure, vehicles and other machinery and equipment, buildings, and various projects under construction (see table below). This represents a net increase of \$451,019 or 0.2% from last year.

	Governmental Activities <u>2012</u>	Governmental Activities <u>2011</u>	<u>Change</u>
Infrastructure, net	\$ 23,832,626	\$ 24,720,925	\$ (888,299)
Buildings and improvements, net	114,388,745	120,059,965	(5,671,220)
Machinery and equipment, net	10,137,844	10,269,932	(132,088)
Land	29,899,810	29,690,336	209,474
Construction in progress	<u>25,925,522</u>	<u>18,992,370</u>	<u>6,933,152</u>
Total	\$ <u>204,184,547</u>	\$ <u>203,733,528</u>	\$ <u>451,019</u>

The increase in construction in progress due to ongoing road projects attributed to the increase in capital assets as of September 30, 2012. See note 6 to the financial statements for more detailed information on the CNMI's capital assets and changes therein.

Long-Term Debt

At year end, the CNMI had \$95.6 million in long-term debt outstanding, which represents a net decrease of \$3.3 million or 3.3% from the prior year. The CNMI's changes in long-term debt outstanding are as follows:

	Governmental Activities <u>2012</u>	Governmental Activities <u>2011</u>	<u>Change</u>
General Obligation Bonds (backed by the CNMI)	\$ 89,906,887	\$ 93,032,215	\$ (3,125,328)
Loan payable (backed by specific fee revenues)	<u>5,707,338</u>	<u>5,885,216</u>	<u>(177,878)</u>
Total	\$ <u>95,614,225</u>	\$ <u>98,917,431</u>	\$ <u>(3,303,206)</u>

As of September 30, 2012, no rating information was provided from Fitch Ratings or Standard and Poor's Financial Services, LLC for the CNMI's General Obligation Bonds.

Article X, Section 4, of the CNMI Constitution limits public indebtedness, other than bonds or other obligations of the government payable solely from the revenues derived from a public improvement or undertaking, to no more than 10% of the aggregate assessed valuation of the real property within the CNMI. The CNMI aggregate assessed valuation has not been determined as of September 30, 2012. However, the CNMI has estimated the aggregate assessed valuation of real property to be \$1,596,236,822 as of September 30, 2012. This estimation was based on the 1995 CNMI Mid-Decade Census.

See note 10 to the financial statements for more detailed information on the CNMI's long-term debt and changes therein.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Subsequent to September 30, 2012, the United States District Court for the Northern Mariana Islands approved a Settlement Agreement between a retiree (individually and on behalf of similarly-situated persons) and the CNMI, the Northern Mariana Islands Retirement Fund (NMIRF) and others. The Settlement Agreement includes the creation of a Settlement Fund to accept the transfer of NMIRF assets, receive annual contributions and payments by the CNMI and to carry out the consent judgment entered by the District Court. As part of the Settlement Agreement, the CNMI agrees to make minimum annual payments to the Settlement Fund to allow for the payment of 75% of Class Members' full benefits annually during the Settlement Fund's expected life and as determined by an actuary appointed by a Trustee and approved by the District Court. The CNMI is awaiting the actuarial determination and the effect on the accompanying financial statements has not been determined.

As a result of the Settlement Agreement, the nature of the \$267,089,307 judgment against the CNMI in the Civil Case No. 06-0367 has changed in that the total amount is not due within a year. The amount of the judgment is factored into the annual payments disclosed in note 10.

Management believes that the actuarial determination will have a positive effect on the General Fund Financial Position and will commence the process of reducing the abovementioned General Fund deficit position.

Economic factors continue to play a large role in developing the tax and other revenue budgets for the General Fund of the CNMI. The local economy, expanding by the effects of an increase in tourism, has followed a trend of increasing revenues. The prospects for fiscal year 2013 appear similar.

CONTACTING THE CNMI'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of CNMI's finances and to show the CNMI's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Office of the Secretary of Finance P.O. Box 5234 CHRB, Saipan, MP 96950 or phone at (670) 664-1100 or email larrisa.larson@gov.mp or larrisa.larson@gmail.com.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Net Assets (Deficiency)
September 30, 2012

	<u>Primary Government</u>	<u>Component Units</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 8,793,571	\$ 36,992,534
Time certificates of deposit	387,370	693,748
Receivables, net of allowance for uncollectibles	25,786,584	47,788,630
Due from primary government	-	9,636,948
Due from Pension (and Other Employee Benefit) Trust Fund	500	-
Inventories	1,306,887	10,154,722
Advances	822,534	-
Other assets	-	3,448,068
Deferred bond issue costs	72,665	-
Restricted assets:		
Cash and cash equivalents	17,681,645	17,373,950
Investments	-	77,092,049
Total current assets	<u>54,851,756</u>	<u>203,180,649</u>
Noncurrent assets:		
Investments	2,500,000	6,164,705
Receivables:		
Loans, net of allowance for uncollectibles	-	13,090,607
Notes, net of allowance for uncollectibles	-	7,846,563
Other	-	1,448,591
Deferred bond issue costs, net of current portion	1,453,308	1,193,527
Foreclosed real estate	-	2,123,774
Nondepreciable capital assets	55,825,332	97,243,453
Depreciable capital assets, net of accumulated depreciation	<u>148,359,215</u>	<u>279,477,069</u>
Total noncurrent assets	<u>208,137,855</u>	<u>408,588,289</u>
Total assets	<u>262,989,611</u>	<u>611,768,938</u>
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of bonds payable	3,365,328	1,675,000
Current portion of notes payable	3,155,134	7,624,906
Accounts payable	9,581,768	38,262,698
Current portion of compensated absences	3,147,989	1,774,076
Tax rebates payable	36,580,743	-
Recovery rebate payable	399,298	-
Accrued interest payable	2,005,763	990,034
Other liabilities and accruals	5,704,108	24,286,187
Claims and judgments payable	31,877,104	-
Due to external parties	1,379,540	-
Due to component units	22,669,011	-
Due to primary government	-	8,891,178
Deferred revenues	<u>5,551,361</u>	<u>3,263,756</u>
Total current liabilities	<u>125,417,147</u>	<u>86,767,835</u>
Noncurrent liabilities:		
Obligations under Settlement Agreement	267,089,307	-
Bonds payable, net of current portion	86,541,559	42,878,385
Notes payable, net of current portion	2,552,204	11,385,219
Obligations under preferred stock agreement	-	2,700,000
Compensated absences, net of current portion	2,622,754	3,292,587
Due to Pension (and Other Employee Benefit) Trust Fund	-	26,553,889
Deferred revenues, net of current portion	-	7,005,712
Other noncurrent liabilities	<u>3,817,368</u>	<u>-</u>
Total noncurrent liabilities	<u>362,623,192</u>	<u>93,815,792</u>
Total liabilities	<u>488,040,339</u>	<u>180,583,627</u>
Commitments and contingencies		
<u>NET ASSETS (DEFICIENCY)</u>		
Invested in capital assets, net of related debt	112,505,725	324,672,087
Restricted for:		
Expendable:		
Capital projects	5,724,068	-
Other purposes	7,542,221	167,277,481
Unrestricted	<u>(350,822,742)</u>	<u>(60,764,257)</u>
Total net assets (deficiency)	<u>\$ (225,050,728)</u>	<u>\$ 431,185,311</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Activities
For the Year Ended September 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
Health	\$ 34,828,647	\$ 800,925	\$ 25,177,605	\$ 272,860	\$ (8,577,257)	\$ -
Public safety and law enforcement	25,693,286	2,331,911	7,735,796	-	(15,625,579)	-
General government	26,508,246	8,641,800	10,527,601	415,514	(6,923,331)	-
Community and social services	21,938,630	5,898	18,013,723	101,083	(3,817,926)	-
Other elected officials	6,429,277	-	-	-	(6,429,277)	-
Utilities	10,945,447	-	-	2,064,828	(8,880,619)	-
Utilities - Capital Projects	899,761	-	-	838,215	(61,546)	-
Public works	16,307,910	427,001	6,398,362	9,631,097	148,550	-
Lands and natural resources	11,385,019	3,778,015	5,513,983	-	(2,093,021)	-
Legislative branch	5,210,254	-	-	-	(5,210,254)	-
Judicial branch	4,257,399	773,178	-	-	(3,484,221)	-
Education	4,004,919	-	33,010	247,464	(3,724,445)	-
Unallocated interest	5,855,016	-	4,400	-	(5,850,616)	-
Economic development	1,300,333	-	376,034	429,657	(494,642)	-
Education:						
Payments to Public School System	35,458,139	-	5,492,001	-	(29,966,138)	-
Payments to Northern Marianas College	6,785,981	-	1,315,007	-	(5,470,974)	-
Payments to Commonwealth Healthcare Corporation	5,176,414	-	-	-	(5,176,414)	-
Payments to Marianas Visitors Authority	7,444,838	-	173,080	-	(7,271,758)	-
Benefit) Trust Fund	556,532	-	-	-	(556,532)	-
Total primary government	\$ 230,986,048	\$ 16,758,728	\$ 80,760,602	\$ 14,000,718	(119,466,000)	-
Component units:						
Commonwealth Ports Authority	\$ 29,154,260	\$ 18,416,201	\$ -	\$ 8,026,867	-	(2,711,192)
Commonwealth Development Authority	17,131,868	1,780,799	10,186,097	-	-	(5,164,972)
Commonwealth Utilities Corporation	113,265,105	95,937,001	-	10,407,616	-	(6,920,488)
Marianas Public Land Trust	2,966,847	-	-	-	-	(2,966,847)
Northern Marianas College	14,501,004	2,189,552	9,472,580	-	-	(2,838,872)
Public School System	72,443,737	2,412,706	32,753,184	-	-	(37,277,847)
Marianas Visitors Authority	5,913,805	72,949	179,533	-	-	(5,661,323)
Commonwealth Healthcare Corporation	33,150,706	28,250,264	18,000	-	-	(4,882,442)
Total component units	\$ 288,527,332	\$ 149,059,472	\$ 52,609,394	\$ 18,434,483	\$ -	\$ (68,423,983)
General revenues:						
Taxes:						
Income					37,196,906	-
Gross receipts					52,784,837	-
Excise					16,372,779	-
Hotel					5,767,281	-
Fuel					3,328,406	-
Cigarette					4,879,975	-
Other taxes					4,108,449	-
Unrestricted investment earnings and dividends					385,894	1,005,325
Contributions from primary government					-	39,612,989
Other					4,942,856	20,515,779
Total general revenues					129,767,383	61,134,093
Change in net assets (deficiency)					10,301,383	(7,289,890)
Net assets (deficiency) - beginning, as previously reported					(238,902,743)	450,764,913
Prior period adjustment (note 17)					3,550,632	(12,289,712)
Net assets (deficiency) - beginning, as restated					(235,352,111)	438,475,201
Net assets (deficiency) - ending					\$ (225,050,728)	\$ 431,185,311

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Balance Sheet
Governmental Funds
September 30, 2012

	General	Grants Assistance	Department of Public Lands	Private Grants	Other Governmental Funds	Total
<u>Assets</u>						
Cash and cash equivalents	\$ 1,792,091	\$ -	\$ 7,001,480	\$ -	\$ -	\$ 8,793,571
Time certificates of deposit	49	-	387,321	-	-	387,370
Investments	2,500,000	-	-	-	-	2,500,000
Restricted cash and cash equivalents	14,553,369	2,991,394	-	-	136,882	17,681,645
Receivables, net:						
Federal agencies	-	10,484,931	-	284,562	1,792,669	12,562,162
Taxes	10,506,533	-	-	-	-	10,506,533
General	598,101	-	897,127	-	-	1,495,228
Other	-	12,831	-	-	1,209,830	1,222,661
Due from other funds	8,082,374	3,575,539	-	3,913,124	6,593,845	22,164,882
Due from Pension (and Other Employee Benefit) Trust Fund	-	-	-	-	500	500
Advances	822,534	-	-	-	-	822,534
Inventories	232,387	1,074,500	-	-	-	1,306,887
	<u>\$ 39,087,438</u>	<u>\$ 18,139,195</u>	<u>\$ 8,285,928</u>	<u>\$ 4,197,686</u>	<u>\$ 9,733,726</u>	<u>\$ 79,443,973</u>
<u>Liabilities and Fund Balances (Deficit)</u>						
<u>Liabilities:</u>						
Accounts payable	\$ 3,694,056	\$ 4,150,965	\$ 407,652	\$ 25,102	\$ 1,303,993	\$ 9,581,768
Tax rebates payable	36,580,743	-	-	-	-	36,580,743
Recovery rebates payable	399,298	-	-	-	-	399,298
Other liabilities and accruals	2,575,819	2,146,260	212,163	-	769,866	5,704,108
Claims and judgments payable	31,309,561	-	567,543	-	-	31,877,104
Due to other funds	15,462,048	5,833,378	1,625,813	-	623,183	23,544,422
Due to component units	22,361,902	-	307,109	-	-	22,669,011
Deferred revenues	-	1,074,500	31,238	4,345,555	100,068	5,551,361
Total liabilities	<u>112,383,427</u>	<u>13,205,103</u>	<u>3,151,518</u>	<u>4,370,657</u>	<u>2,797,110</u>	<u>135,907,815</u>
<u>Fund balances (deficit):</u>						
Non-spendable	2,732,387	-	-	-	-	2,732,387
Restricted	2,257,765	5,025,097	5,134,410	-	7,602,012	20,019,284
Unassigned:						
General fund	(78,286,141)	-	-	-	-	(78,286,141)
Special revenue funds	-	-	-	(172,971)	(221,761)	(394,732)
Capital projects funds	-	(91,005)	-	-	(443,635)	(534,640)
Total fund balances (deficit)	<u>(73,295,989)</u>	<u>4,934,092</u>	<u>5,134,410</u>	<u>(172,971)</u>	<u>6,936,616</u>	<u>(56,463,842)</u>
	<u>\$ 39,087,438</u>	<u>\$ 18,139,195</u>	<u>\$ 8,285,928</u>	<u>\$ 4,197,686</u>	<u>\$ 9,733,726</u>	<u>\$ 79,443,973</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Deficiency
September 30, 2012

Total fund deficit - governmental funds		\$ (56,463,842)
Amounts reported for governmental activities in the statement of net assets are different because:		
Bonds issued by the CNMI have associated costs that are paid from current available resources in the funds. However, these costs are deferred on the statement of net assets.		
		1,525,973
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	\$ 29,899,810	
Construction in progress	25,925,522	
Depreciable capital assets and infrastructure, net of \$194,380,445 of accumulated depreciation	<u>148,359,215</u>	
Capital assets, net of accumulated depreciation		204,184,547
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities include:		
Obligations under Settlement Agreement	(267,089,307)	
Bonds payable	(89,906,887)	
Accrued interest payable	(2,005,763)	
NMIRF loan payable	(5,707,338)	
Compensated absences payable	(5,770,743)	
Landfill closure and postclosure costs	<u>(3,817,368)</u>	
Long-term liabilities		<u>(374,297,406)</u>
Net deficiency of governmental activities		<u>\$ (225,050,728)</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)
Governmental Funds
For the Year Ended September 30, 2012

	General	Grants Assistance	Department of Public Lands	Private Grants	Other Governmental Funds	Total
Revenues:						
Taxes	\$ 121,249,627	\$ -	\$ -	\$ -	\$ 3,189,006	\$ 124,438,633
Federal contributions	-	85,019,156	-	-	7,316,650	92,335,806
Licenses and fees	6,832,480	171,760	257,458	-	4,950,841	12,212,539
Charges for sales and services	1,412,163	-	3,109,541	-	24,485	4,546,189
Contributions from component units	2,223,634	-	-	-	201,880	2,425,514
Interest and dividends	260,845	325	33,435	-	91,289	385,894
Other	1,554,540	357,512	118,473	843,040	2,069,291	4,942,856
Total revenues	133,533,289	85,548,753	3,518,907	843,040	17,843,442	241,287,431
Expenditures:						
Current:						
Health	4,065,255	28,984,968	-	114,434	266,915	33,431,572
General government	18,331,394	8,925,773	-	-	92,615	27,349,782
Public safety and law enforcement	18,332,706	5,585,601	-	585,776	280,516	24,784,599
Community and social services	2,350,437	18,277,904	-	274,222	296,465	21,199,028
Lands and natural resources	2,769,019	5,767,336	2,933,931	-	116,463	11,586,749
Utilities	8,880,619	2,064,828	-	-	-	10,945,447
Other elected officials	6,345,795	-	-	-	83,482	6,429,277
Legislative branch	5,210,254	-	-	-	-	5,210,254
Judicial branch	3,966,125	-	-	-	-	3,966,125
Education	1,351,824	647,242	-	-	2,005,853	4,004,919
Economic development	807,911	461,848	-	30,574	-	1,300,333
Payments to:						
Public School System	29,669,461	5,788,678	-	-	-	35,458,139
Marianas Visitors Authority	7,444,838	-	-	-	-	7,444,838
Northern Marianas College	4,813,155	1,972,826	-	-	-	6,785,981
Commonwealth Healthcare Corporation	5,176,414	-	-	-	-	5,176,414
Pension (and Other Employee Benefit) Trust Fund	556,532	-	-	-	-	556,532
Debt service:						
Interest and fiscal charges	5,132,910	-	-	-	456,560	5,589,470
Principal retirement	3,430,000	-	-	-	177,878	3,607,878
Capital outlay:						
Public works	2,684,188	8,836,171	-	-	8,254,451	19,774,810
Utilities - Capital Projects	-	838,213	-	-	61,548	899,761
Total expenditures	131,318,837	88,151,388	2,933,931	1,005,006	12,092,746	235,501,908
Excess (deficiency) of revenues over (under) expenditures	2,214,452	(2,602,635)	584,976	(161,966)	5,750,696	5,785,523
Other financing sources (uses):						
Operating transfers in	4,958,502	3,320,587	-	-	416,582	8,695,671
Operating transfers out	(3,262,757)	(1,261,921)	(416,582)	-	(3,754,411)	(8,695,671)
Total other financing sources (uses), net	1,695,745	2,058,666	(416,582)	-	(3,337,829)	-
Extraordinary item:						
Retirement Fund obligations under Settlement Agreement (note 18)	267,089,307	-	-	-	-	267,089,307
Net change in fund balances (deficit)	270,999,504	(543,969)	168,394	(161,966)	2,412,867	272,874,830
Fund balances (deficit) at beginning of year, as previously reported	(344,295,493)	5,478,061	1,415,384	-	4,512,744	(332,889,304)
Prior period adjustment (note 17)	-	-	3,550,632	-	-	3,550,632
Other (note 1D)	-	-	-	(11,005)	11,005	-
Fund balances (deficit) at beginning of year, as restated	(344,295,493)	5,478,061	4,966,016	(11,005)	4,523,749	(329,338,672)
Fund balances (deficit) at end of year	\$ (73,295,989)	\$ 4,934,092	\$ 5,134,410	\$ (172,971)	\$ 6,936,616	\$ (56,463,842)

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances (Deficit) of Governmental Funds to the Statement of Activities
September 30, 2012

Total net change in fund deficit - governmental funds		\$ 272,874,830
Amounts reported for governmental activities in the Statement of Activities are different because:		
Borrowing costs are deferred and amortized in the Statement of Activities over the term of the related long-term debt. These consist of:		
Bonds payable		(72,665)
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. For the current year, these amounts consist of:		
Capital outlays, net of disposals	11,095,241	
Depreciation expense	<u>(10,644,222)</u>	
		451,019
The incurrence of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and deferred amounts on refundings when debt is issued, whereas these amounts are deferred and amortized in the Statement of Activities. For the current year, these amounts consist of:		
Repayment of bonds	3,430,000	
Repayment of NMIRF loan	177,878	
Amortization of bond premium	6,320	
Amortization of bond discount	(1,265)	
Amortization of deferred amount on refunding	<u>(309,727)</u>	
		3,303,206
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. For the current year, these activities consist of:		
Change in accrued interest payable	111,791	
Change in compensated absences payable	1,104,245	
Change in landfill closure and postclosure care costs	(381,736)	
Change in obligations under Settlement Agreement	<u>(267,089,307)</u>	
		<u>(266,255,007)</u>
Change in net deficiency of governmental activities		<u>\$ 10,301,383</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2012

	<u>Assets</u>	Pension (and Other Employee Benefit) Trust Fund	Agency Funds
Cash and cash equivalents		\$ 10,177,079	\$ 1,148,036
Receivables:			
Loan		5,707,338	-
Notes		7,341,522	-
Benefits		7,834,408	-
Interest and dividends		575,174	-
Other		1,165,041	-
		<u>22,623,483</u>	<u>-</u>
Due from General Fund		259,628,483	1,379,540
Due from component units		59,093,176	-
Less allowance for uncollectible receivables		<u>(240,005,019)</u>	<u>-</u>
		<u>78,716,640</u>	<u>1,379,540</u>
Due from Miscellaneous Special Revenue Funds		603,878	-
Prepaid items		<u>8,958</u>	<u>-</u>
Investments, at fair market value:			
Equity securities		1,696,361	-
Corporate debt securities		107,894,996	-
U.S. Government securities		864,426	-
Mutual funds		137,400,507	-
Cash equivalents		18	-
		<u>247,856,308</u>	<u>-</u>
Restricted assets		133,380	2,219,651
Capital assets		<u>3,860,322</u>	<u>-</u>
Total assets		<u>363,980,048</u>	<u>\$ 4,747,227</u>
	<u>Liabilities and Other Credits</u>		
Accounts payable		19,159,105	-
Claims and judgments payable		-	1,379,540
Deposits payable		-	3,367,687
Other liabilities and accruals		448,227	-
Due to Judicial Building Fund		500	-
Deferred revenue		<u>86,602,700</u>	<u>-</u>
Total liabilities and other credits		<u>106,210,532</u>	<u>\$ 4,747,227</u>
Net assets:			
Held in trust for pension benefits		272,440,727	
Held in trust for medical and life insurance benefits		(16,379,207)	
Held in trust for workers' compensation benefits and other purposes		<u>1,707,996</u>	
Total net assets		<u>\$ 257,769,516</u>	

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended September 30, 2012

	<u>Pension (and Other Employee Benefit) Trust Fund</u>
<u>Additions</u>	
Contributions:	
Employer	\$ 40,665,322
Employee	12,496,466
Revenues:	
Premiums	45,802
Rent income and other	1,206,025
Total contributions and revenues	<u>54,413,615</u>
Net investment earnings:	
Net appreciation in fair value of investments	11,086,865
Interest	6,505,641
Total investment earnings	<u>17,592,506</u>
Less: investment expense	<u>292,341</u>
Net investment earnings	<u>17,300,165</u>
Other financing sources:	
Transfers in	<u>718,213</u>
Total additions	<u>72,431,993</u>
<u>Deductions</u>	
Benefits	73,872,024
General and administrative	4,040,702
Bad debts	25,677,617
Refunds and withdrawals	5,248,493
Total deductions	<u>108,838,836</u>
Change in net assets	(36,406,843)
Net assets at beginning of year	<u>294,176,359</u>
Net assets at end of year	<u>\$ 257,769,516</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Net Assets
Component Units
September 30, 2012

	Commonwealth Ports Authority	Commonwealth Development Authority	Commonwealth Utilities Corporation	Marianas Public Land Trust	Northern Marianas College	Public School System	Marianas Visitors Authority	Commonwealth Healthcare Corporation	Total
Assets									
Current assets:									
Cash and cash equivalents	\$ 10,329,961	\$ 2,690,936	\$ 4,042,165	\$ 4,019,489	\$ 5,504,633	\$ 2,652,001	\$ 778,149	\$ 6,975,200	\$ 36,992,534
Time certificates of deposit	-	-	-	-	693,748	-	-	-	693,748
Receivables, net of allowance for uncollectibles:									
Loans	-	4,694,123	-	-	-	-	-	-	4,694,123
Notes	-	-	166,098	3,760,941	-	-	-	-	3,927,039
Federal agencies	3,313,876	-	24,596	-	881,531	702,990	-	-	4,922,993
General	2,609,930	-	14,330,964	-	1,434,157	-	-	9,303,867	27,678,918
Interest and dividends	-	276,315	-	538,121	-	-	-	-	814,436
Other	366,973	127,128	2,145,612	2,139,496	-	954,283	17,131	498	5,751,121
Due from primary government	-	-	-	-	177,562	4,579,269	4,880,117	-	9,636,948
Inventories	-	-	9,196,262	-	598,208	-	-	360,252	10,154,722
Other assets	176,294	4,223	3,256,998	2,391	6,482	-	1,680	-	3,448,068
Restricted assets:									
Cash and cash equivalents	-	8,179,493	9,194,457	-	-	-	-	-	17,373,950
Investments	17,313,055	-	-	59,778,994	-	-	-	-	77,092,049
Total current assets	34,110,089	15,972,218	42,357,152	70,239,432	9,296,321	8,888,543	5,677,077	16,639,817	203,180,649
Noncurrent assets:									
Investments	-	-	-	-	6,164,705	-	-	-	6,164,705
Receivables:									
Loans, net	-	13,090,607	-	-	-	-	-	-	13,090,607
Notes	-	-	1,384,699	6,461,864	-	-	-	-	7,846,563
Other	-	1,448,591	-	-	-	-	-	-	1,448,591
Deferred bond issue costs	1,193,527	-	-	-	-	-	-	-	1,193,527
Nondepreciable capital assets	37,728,204	7,572,530	12,174,690	116,000	1,113,376	38,538,653	-	-	97,243,453
Depreciable capital assets, net of accumulated depreciation	152,403,606	2,108,528	75,952,515	232,336	4,378,922	44,385,323	15,839	-	279,477,069
Foreclosed real estate	-	2,123,774	-	-	-	-	-	-	2,123,774
Total noncurrent assets	191,325,337	26,344,030	89,511,904	6,810,200	11,657,003	82,923,976	15,839	-	408,588,289
Total assets	225,435,426	42,316,248	131,869,056	77,049,632	20,953,324	91,812,519	5,692,916	16,639,817	611,768,938
Liabilities and Net Assets									
Current liabilities:									
Current portion of bonds payable	1,675,000	-	-	-	-	-	-	-	1,675,000
Current portion of notes payable	245,925	140,300	3,909,993	-	-	-	-	3,328,688	7,624,906
Accounts payable	5,145,195	1,178,001	9,210,211	33,703	560,301	11,065,656	1,775,156	9,294,475	38,262,698
Compensated absences	231,184	-	100,498	-	380,949	1,047,919	13,526	-	1,774,076
Due to primary government	1,954,443	-	5,969,578	-	-	-	-	967,157	8,891,178
Other liabilities and accruals	3,812,025	2,622,790	10,693,639	2,306,267	275,296	702,457	1,080,918	2,792,795	24,286,187
Accrued interest payable	546,679	-	443,355	-	-	-	-	-	990,034
Deferred revenues	30,309	998,950	-	-	694,647	1,539,850	-	-	3,263,756
Total current liabilities	13,640,760	4,940,041	30,327,274	2,339,970	1,911,193	14,355,882	2,869,600	16,383,115	86,767,835
Noncurrent liabilities:									
Bonds payable, net of current portion	42,878,385	-	-	-	-	-	-	-	42,878,385
Notes payable, net of current portion	5,005,513	840,343	5,539,363	-	-	-	-	-	11,385,219
Obligations under preferred stock agreement	-	-	2,700,000	-	-	-	-	-	2,700,000
Compensated absences, net of current portion	366,053	-	869,727	-	202,448	1,745,256	109,103	-	3,292,587
Due to Pension (and Other Employee Benefit) Trust Fund	-	-	3,475,980	-	-	23,077,909	-	-	26,553,889
Deferred revenue, net of current portion	-	7,005,712	-	-	-	-	-	-	7,005,712
Total noncurrent liabilities	48,249,951	7,846,055	12,585,070	-	202,448	24,823,165	109,103	-	93,815,792
Total liabilities	61,890,711	12,786,096	42,912,344	2,339,970	2,113,641	39,179,047	2,978,703	16,383,115	180,583,627
Net assets:									
Invested in capital assets, net of related debt	140,326,987	9,681,058	85,883,593	348,336	5,492,298	82,923,976	15,839	-	324,672,087
Restricted	17,313,055	19,849,094	48,493,415	74,361,326	6,164,705	1,095,886	-	-	167,277,481
Unrestricted	5,904,673	-	(45,420,296)	-	7,182,680	(31,386,390)	2,698,374	256,702	(60,764,257)
Total net assets	\$ 163,544,715	\$ 29,530,152	\$ 88,956,712	\$ 74,709,662	\$ 18,839,683	\$ 52,633,472	\$ 2,714,213	\$ 256,702	\$ 431,185,311

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Revenues, Expenses, and Changes in Net Assets
Components Units
Year Ended September 30, 2012

	Commonwealth Ports Authority	Commonwealth Development Authority	Commonwealth Utilities Corporation	Marianas Public Land Trust	Northern Marianas College	Public School System	Marianas Visitors Authority	Commonwealth Healthcare Corporation	Total
Operating revenues:									
Charges for services and fees	\$ 11,231,353	\$ 1,054,484	\$ 95,937,001	\$ -	\$ 1,385,230	\$ 2,412,706	\$ 39,296	\$ 28,250,264	\$ 140,310,334
Grants and contributions	-	10,186,097	-	-	9,472,580	32,753,184	179,533	18,000	52,609,394
Other	7,184,848	726,315	-	7,622,106	804,322	-	33,653	1,382,833	17,754,077
	18,416,201	11,966,896	95,937,001	7,622,106	11,662,132	35,165,890	252,482	29,651,097	210,673,805
Provision for uncollectible receivables	(482,162)	(3,574,808)	-	8,677	-	-	-	-	(4,048,293)
Total operating revenues	17,934,039	8,392,088	95,937,001	7,630,783	11,662,132	35,165,890	252,482	29,651,097	206,625,512
Operating expenses:									
Cost of services	7,602,177	8,198,344	77,954,020	-	9,546,402	58,446,697	4,332,322	12,364,662	178,444,624
Depreciation and amortization	11,620,279	288,879	8,993,041	25,589	629,117	2,084,283	11,893	-	23,653,081
Administration	6,352,389	4,799,781	16,710,015	777,362	4,325,485	11,912,757	1,569,590	20,685,789	67,133,168
Total operating expenses	25,574,845	13,287,004	103,657,076	802,951	14,501,004	72,443,737	5,913,805	33,050,451	269,230,873
Operating income (loss)	(7,640,806)	(4,894,916)	(7,720,075)	6,827,832	(2,838,872)	(37,277,847)	(5,661,323)	(3,399,354)	(62,605,361)
Nonoperating revenues (expenses):									
Contributions from the primary government	-	-	-	-	3,748,689	29,619,462	6,244,838	-	39,612,989
Contributions to the primary government	-	(201,880)	(362,275)	(2,146,382)	-	-	-	-	(2,710,537)
Unrestricted investment earnings	333,555	15,125	656,645	-	-	-	-	-	1,005,325
Interest expense	(3,030,288)	(68,176)	(1,166,756)	-	-	-	-	(100,255)	(4,365,475)
Amortization of bond issue cost	(66,965)	-	-	-	-	-	-	-	(66,965)
Other expenses	-	-	(677,951)	(17,514)	-	-	-	-	(695,465)
Other revenues	2,008,589	319,750	421,062	1,000,000	813,648	-	-	3,756,311	8,319,360
Nonoperating revenues (expenses), net	(755,109)	64,819	(1,129,275)	(1,163,896)	4,562,337	29,619,462	6,244,838	3,656,056	41,099,232
Income (loss) before change in recovery of fuel costs	(8,395,915)	(4,830,097)	(8,849,350)	5,663,936	1,723,465	(7,658,385)	583,515	256,702	(21,506,129)
Change in recovery of fuel costs	-	-	3,182,803	-	-	-	-	-	3,182,803
Income (loss) before capital contributions and federal grants	(8,395,915)	(4,830,097)	(5,666,547)	5,663,936	1,723,465	(7,658,385)	583,515	256,702	(18,323,326)
Capital contributions and federal grants	8,026,867	-	10,407,616	-	-	-	-	-	18,434,483
Change in net assets before extraordinary items	(369,048)	(4,830,097)	4,741,069	5,663,936	1,723,465	(7,658,385)	583,515	256,702	111,157
Contract termination expense	-	-	(7,401,047)	-	-	-	-	-	(7,401,047)
Change in net assets	(369,048)	(4,830,097)	(2,659,978)	5,663,936	1,723,465	(7,658,385)	583,515	256,702	(7,289,890)
Net assets - beginning, as previously reported	165,311,949	34,360,249	91,616,690	69,045,726	17,063,959	71,235,642	2,130,698	-	450,764,913
Prior period adjustment (note 17)	(1,398,186)	-	-	-	52,259	(10,943,785)	-	-	(12,289,712)
Net assets - beginning, as restated	163,913,763	34,360,249	91,616,690	69,045,726	17,116,218	60,291,857	2,130,698	-	438,475,201
Net assets - ending	\$ 163,544,715	\$ 29,530,152	\$ 88,956,712	\$ 74,709,662	\$ 18,839,683	\$ 52,633,472	\$ 2,714,213	\$ 256,702	\$ 431,185,311

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies

The accompanying basic financial statements of the Commonwealth of the Northern Mariana Islands (CNMI) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the CNMI's accounting policies are described below.

A. Reporting Entity

The Government of the CNMI is a constitutional government comprised of three branches: the Legislative Branch (the Legislature), consisting of a nine-member Senate and an eighteen-member House of Representatives elected by eligible voters; the Executive Branch, with the Governor as the chief executive officer; and the Judicial Branch made up of two Commonwealth courts (the Appeals Court and the Trial Court).

For financial reporting purposes, the CNMI has included all funds, organizations, agencies, boards, commissions and institutions. The CNMI has also considered all potential component units for which it is financially accountable as well as other entities for which the nature and significance of their relationship with the CNMI are such that exclusion would cause the CNMI's basic financial statements to be misleading or incomplete. The criteria to be considered in determining financial accountability include whether the CNMI, as the primary government, has appointed a voting majority of an organization's governing body and either has the ability to impose its will on that organization or there is potential for the organization to provide specific financial benefits to or impose specific financial burdens on the CNMI. Financial accountability also exists if an organization is determined to be fiscally dependent on the primary government, although the primary government does not appoint a voting majority of the organization's governing board.

Each component unit of the CNMI has a September 30 year end.

Component units are entities that are legally separate organizations for which the CNMI's elected officials are financially accountable or other organizations for which the nature and significance of their relationship with the CNMI are such that exclusion would cause the CNMI's basic financial statements to be misleading or incomplete. The CNMI is financially accountable because it appoints the members of the governing authorities of each of the component units and because it is able to impose its will on these organizations or because the organizations provide specific financial benefits or impose specific financial burdens on the CNMI.

The financial statements of the component units have been included in the financial reporting entity as discretely presented component units in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The component units' column of the basic financial statements includes the financial data of the following discretely presented component units:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

- The Commonwealth Ports Authority (CPA) is responsible for the operations, maintenance and improvement of all airports and seaports within the CNMI. CPA is governed by a seven-member Board of Directors appointed by the Governor. The CNMI has the ability to impose its will on CPA.
- The Commonwealth Development Authority (CDA) functions to stimulate the economic development of the CNMI. It serves as the administrator of United States economic assistance for economic development loans and aids in the financing of capital improvement projects undertaken by the CNMI and its autonomous public agencies. CDA is governed by a seven-member Board of Directors appointed by the Governor. The CNMI has the ability to impose its will on CDA.
- The Commonwealth Utilities Corporation (CUC) is responsible for supervising the construction, maintenance, operations and regulation of all utility services within the CNMI. CUC is headed by an Executive Director appointed by the Governor. The CNMI has the ability to impose its will on CUC.
- The Marianas Public Land Trust (MPLT) manages all monies received by it from the CNMI Department of Public Lands for the use of public lands and distributes net income to the general fund of the CNMI. Additionally, MPLT is responsible for maintaining a separate trust fund for the development and maintenance of American Memorial Park. MPLT is governed by a five-member Board of Trustees appointed by the Governor. The CNMI has the ability to impose its will on MPLT.
- The Northern Marianas College (NMC) serves as the state agency for higher education and adult education programs within the CNMI. NMC is governed by a seven-member Board of Regents appointed by the Governor. The CNMI provides financial support to NMC through legislative appropriations.
- The Public School System (PSS) is the state educational agency responsible for pre-school, elementary and secondary education programs in the CNMI. PSS is governed by a five-member Board of Education elected at-large. The CNMI provides financial support to PSS through legislative appropriations.
- The Marianas Visitors Authority (MVA) is responsible for the promotion and development of the tourism industry in the CNMI. MVA is governed by a nine-member Board of Directors, five of which are appointed by the Governor with the remaining four chosen by the members of MVA. The CNMI provides financial support to MVA through legislative appropriations.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

- The Commonwealth Healthcare Corporation (CHCC) is responsible for providing healthcare services in the CNMI. CHCC is governed by a seven-member Board of Trustees, three of which are ex officio voting members consisting of the Chief Executive Officer, the Director of Medical Services and a U.S. citizen selected CHCC's non-physician healthcare professionals and the remaining four are appointed by the Governor with the advice and consent of the Senate. The CNMI provides financial support to CHC through legislative appropriations.

Complete financial statements for each of the abovementioned discretely presented component units may be obtained at the units' administrative offices.

Commonwealth Ports Authority
P.O. Box 501055
Saipan, MP 96950-1055

Commonwealth Development Authority
P.O. Box 502149
Saipan, MP 96950-2149

Commonwealth Utilities Corporation
P.O. Box 501220
Saipan, MP 96950-1220

Marianas Public Land Trust
P.O. Box 501089
Saipan, MP 96950-1089

Northern Marianas College
P.O. Box 501250
Saipan, MP 96950-1250

Public School System
P.O. Box 501370
Saipan, MP 96950-1370

Marianas Visitors Authority
P.O. Box 500861
Saipan, MP 96950-0861

Commonwealth Healthcare Corporation
P.O. Box 500409
Saipan, MP 96950-0409

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

In addition, the fiduciary component units are subject to legislative and executive controls. These component units, while meeting the definition of a component unit and while legally separate, are presented in the fund financial statements of the CNMI. They have been omitted from the government-wide financial statements as their resources are not available to fund operations of the CNMI. The fiduciary component units are as follows:

- The Northern Mariana Islands Retirement Fund (NMIRF), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund, exists to provide retirement security and other benefits to government employees, their spouses and dependents, former Governors and Lieutenant Governors, and to provide for an actuarially sound, locally funded pension system within the CNMI. NMIRF is governed by a seven-member Board of Trustees appointed by the Governor.
- The CNMI Group Health and Life Insurance Trust Fund (GHLITF), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund, is responsible for administering the life and health insurance programs for CNMI government employees. The Board of Trustees of NMIRF administers GHLITF. The GHLITF health benefit administration was privatized on November 1, 2007.
- The CNMI Workers' Compensation Commission (WCC), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund, is responsible for the payment of compensation to workers who are not adequately covered under their employer's insurance policy. The Board of Trustees of NMIRF administers WCC.

Complete financial statements for each of the abovementioned blended component units may be obtained at the units' administrative offices.

Northern Mariana Islands Retirement Fund
P.O. Box 501247
Saipan, MP 96950-1247

CNMI Group Health and Life Insurance Trust Fund
P.O. Box 501247
Saipan, MP 96950-1247

CNMI Workers' Compensation Commission
P.O. Box 501247
Saipan, MP 96950-1247

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Omitted Component Unit

The CNMI has omitted the Commonwealth Government Employees Credit Union (CGECU) from the basic financial statements due to the lack of available financial information. CGECU serves as a credit union for all CNMI government employees. CGECU is governed by a five-member Board of Directors appointed by the Governor. The financial activities of this omitted component unit are not considered material to the basic financial statements.

Program and Other Revenue Recognition

Program revenue is defined by the CNMI to be the revenue from fees and assessments collected by departments that are applicable to that department's operations. General revenue is derived from taxation, investment income and other fees that are not allocated to specific programs. All other revenues and expenses are reported as nonoperating.

B. Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been eliminated from these statements except for other changes between the primary government and the discretely presented component units. Elimination of these changes would distort the direct costs and program revenues reported for the various functions concerned. Primary government activities are all governmental in nature. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Discretely presented component unit activities are presented with their business-type focus.

The Statement of Net Assets presents all of the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- *Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- *Unrestricted net assets* consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

The government-wide Statement of Net Assets reports \$13,266,289 of restricted net assets, of which \$7,542,221 is restricted by enabling legislation.

The Statement of Activities demonstrates the degree to which the direct expenses of given functions or segments are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are, instead, reported as general revenue.

C. Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for its major and aggregated nonmajor funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor governmental funds being combined into a single column.

The CNMI reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

D. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenue is derived from taxation, investment income and other fees that are not allocated to specific programs.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Governmental Fund Financial Statements:

Governmental funds financial statements account for the general governmental activities of the CNMI and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the CNMI considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs, which is generally within twelve months of the current fiscal period.

Significant revenues susceptible to accrual include income, gross receipts, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Therefore, tax related receivables are essentially reserved for or have been historically deferred. Miscellaneous revenues from other financing sources are recognized when received because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are both measurable and available. Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Expenditures generally are recorded in the period in which the related fund liability is incurred as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Fiduciary Funds and Component Units Financial Statements:

Discretely presented component units distinguish operating revenues from nonoperating items. Operating revenues generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise combined) for the determination of major funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining statements. The CNMI reports the following major funds:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

- General Fund. This fund is the primary operating fund of the CNMI. It is used to account for all governmental transactions, except those required to be accounted for in another fund.
- Grants Assistance Fund, a Governmental Fund Type - Capital Projects Fund/Special Revenue Fund. This fund accounts for all financial transactions related to grants received from various U.S. departments. This fund combines the DOI Capital Projects Fund, a Governmental Fund Type - Capital Projects Fund and Federal Grants Fund, a Governmental Fund Type - Special Revenue Fund and is detailed in the combining statements.
- Department of Public Lands, a Governmental Fund Type - Special Revenue Fund. This fund accounts for all financial transactions related to those lands defined as public lands.
- Private Grants Fund, a Governmental Fund Type - Special Revenue Fund. This fund accounts for all financial transactions related to miscellaneous grants that are not directly from the U.S. government. Included in this fund are transactions relating to grants from world organizations and private business organizations in the CNMI.

During the year ended September 30, 2012, the Private Grants Fund met the definition of a major fund. Previously, the Private Grants Fund was considered a nonmajor fund and presented within the other governmental funds column. The effect of this presentation in the current year is an increase in the beginning fund balance of the other governmental funds of \$11,005.

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. For all discretely presented component units, the CNMI applies GASB Statement No. 20, unless FASB pronouncements conflict with or contradict GASB pronouncements, and has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

E. Concentrations of Credit Risk

Financial instruments, which potentially subject the CNMI to concentrations of credit risk, consist principally of cash demand deposits and investments.

At September 30, 2012, the CNMI has cash deposits and investments in bank accounts that exceed federal depository insurance limits. The CNMI has not experienced any losses on such accounts.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

F. Cash and Cash Equivalents and Time Certificates of Deposit

The CNMI pools cash resources of its various funds in order to facilitate the management of cash. Unless otherwise required by law, interest income received on pooled cash accrues to the General Fund. Cash and cash equivalents applicable to a particular fund are readily identifiable. Cash and cash equivalents include cash held in demand accounts as well as short-term investments in U.S. Treasury obligations with a maturity date within three months of the date acquired by the CNMI. Time certificates of deposit with original maturity dates greater than ninety days are separately classified on the statement of net assets/balance sheet.

G. Receivables

In general, tax revenue is recognized on the government-wide financial statements, when assessed or levied. Tax revenue is recognized on the governmental fund financial statements to the extent that it is both measurable and available. Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the CNMI for expenditures on federally-funded reimbursement and grant programs are reported as "receivables from federal agencies".

H. Interfund/Intrafund Transactions

As a general rule, the effect of interfund activity has been eliminated in the government-wide financial statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

I. Interfund Receivables and Payables

During the course of its operations, the CNMI records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the governmental funds balance sheet. Receivables and payables resulting from transactions between component units and the primary government are classified as "due to/from primary government" or "due to/from component units" on the governmental balance sheet and statement of net assets. Interfund receivables and payables have been eliminated from the statement of net assets.

J. Advances

Advances include amounts paid in advance to vendors. In the governmental funds balance sheet, advances are offset by inclusion in the fund balance reserve for encumbrances indicating that they do not constitute expendable available resources and are, therefore, not available for appropriation.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

K. Inventories

Inventories are stated at the lower of cost or market using the first-in/first-out (FIFO) method.

Food stamp balances held at year end are recorded as inventories based on face value. Inventories reported in the Grants Assistance Fund of \$1,074,500 are offset by deferred revenues.

L. Capital Assets and Depreciation

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the governmental activity column of the government-wide financial statements.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

All land, non-depreciable land improvements are capitalized, regardless of cost. Singular pieces of machinery and equipment, other than vehicles, that equal or exceed \$50,000 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

All vehicles have been grouped together regardless of cost and depreciated on a composite basis.

Management has elected to present only assets acquired subsequent to 1990, except for roads and the Commonwealth Hospital Complex. Accordingly, fixed asset records consist of additions commencing in fiscal year 1990.

Applicable capital assets are depreciated using the straight-line method with a full year's depreciation charged in the year of acquisition and disposal, regardless of date. Estimated useful lives are as follows:

	<u>Estimated Useful Life</u>
Buildings and other improvements	10 - 50 years
Infrastructure	20 years
Machinery and equipment	5 - 25 years

M. Fund Equity/Net Assets

The CNMI reports net assets as restricted where legally segregated for a specific future use by enabling legislation in accordance with GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. Otherwise, these balances are considered unrestricted.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

M. Fund Equity/Net Assets, Continued

Net assets have been restricted as follows:

“Restricted for capital projects” - identifies amounts restricted for Capital Projects.

“Restricted for retirement of indebtedness” - identifies amounts restricted for debt service.

“Restricted for other purposes” - identifies amounts held for various externally imposed restrictions either by creditors, grantors or laws and regulations of other governments. It also includes various restrictions put forth by the CNMI enabling statutes.

Fund balance classifications are based on the extent to which the CNMI is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and are reported under the following fund balance classifications:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the CNMI Legislature, the CNMI’s highest level of decision making authority, and does not lapse at year-end. Formal action of the CNMI Legislature is required to remove the limitations of committed fund balances.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Intent is expressed by either the CNMI Legislature or a body (for example, a budget or finance committee) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.
- Unassigned includes negative fund balances in other governmental funds.

The CNMI has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed, assigned, and unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the general policy of the CNMI is to use committed resources first, followed by assigned, and then unassigned. The use of restricted/committed resources may be deferred based on a review of the specific transaction.

A formal minimum fund balance policy has not been adopted.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

N. Long-Term Obligations

Article X, Section 4, of the CNMI Constitution limits public indebtedness, other than bonds or other obligations of the government payable solely from the revenues derived from a public improvement or undertaking, to no more than 10% of the aggregate assessed valuation of the real property within the CNMI. The CNMI aggregate assessed valuation has not been determined as of September 30, 2012. However, the CNMI has estimated the aggregate assessed valuation of real property to be \$1,596,236,822 as of September 30, 2012. This estimation was based on the 1995 CNMI Mid-Decade Census.

O. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Compensated absences are recorded as a long-term liability in the statement of net assets with amounts to be paid during the next fiscal year reported as current. The liability as of September 30, 2012, is \$5,770,743.

Annual leave accumulates at the rate of thirteen working days for each year of service for up to three years of service, nineteen and a half working days for each year of service for three to six years of service, and twenty-six working days for each year of service for more than six years of service. Accrued annual leave is limited to forty-five working days, with any amounts over forty-five days transferred to sick leave.

P. Deferred Revenues

In the government-wide financial statements, deferred revenue is recognized when cash, receivables or other assets are recorded prior to their being earned. In the governmental fund financial statements, deferred revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period under the modified accrual basis of accounting. Deferred revenues also arise when resources are received by the CNMI before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the CNMI has a legal claim to the resources, the liability for deferred revenue is removed from the governmental fund balance sheet and revenue is recognized.

Q. Bond Premiums, Discounts and Issuance Costs

In the government-wide financial statements, bond premiums, discounts and issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Bonds payable are reported net of bond premiums and discounts. Bond issue costs are reported as deferred charges.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

Q. Bond Premiums, Discounts and Issuance Costs, Continued

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the period the bond proceeds are received. The face amount of the debt issued is reported as other financing sources. Premiums received and discounts deducted on debt issuance are reported as other financing sources and other financing uses, respectively. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as expenditures.

R. Income Taxes and Wage and Salary Taxes

The *Covenant to Establish the Commonwealth of the Northern Mariana Islands in Political Union with the United States of America* (the Covenant) adopted the Internal Revenue Code of the United States of America as the local income tax. Percentages of income tax due to the CNMI from CNMI source income are rebated at 90%, 70% or 50%, based on specified tax brackets for corporate and individual income taxes paid.

During the calendar year, the CNMI collects individual and corporate income taxes through withholdings and payments from taxpayers. At September 30, the CNMI estimates the amount owed to taxpayers for overpayments and rebates. These estimated amounts and the actual tax rebates claimed for prior years but not paid at year end are recorded as tax rebates payable with a corresponding reduction of tax revenue in the General Fund. The estimated tax rebate liability is evaluated on a regular basis by the CNMI and is based upon the CNMI's periodic review of tax returns in light of historical experience and the nature and volume of tax returns submitted. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Accordingly, changes to estimates are accounted for on a prospective basis.

S. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

T. New Accounting Standards

During the year ended September 30, 2012, the CNMI implemented the following pronouncements:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CNMI.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the CNMI.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CNMI.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of the CNMI.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the CNMI.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the CNMI.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the CNMI.

U. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results may differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the tax rebate payable.

In determining the tax rebates payable, the CNMI makes various estimates. In conjunction with these estimates, the CNMI has established a permanent tax rebate reserve of \$1,500,000 to offset potential estimated disputes or claims.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

V. Encumbrances

The CNMI utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2012, the CNMI has significant encumbrances summarized as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Department of Public Lands</u>	<u>Private Grants</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Encumbrances	\$ <u>755,917</u>	\$ <u>10,843,964</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>3,238,152</u>	\$ <u>14,838,033</u>

W. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the CNMI's financial statements for the year ended September 30, 2011 from which summarized information was derived.

(2) Deposits and Investments

Deposit and Investment Policy

The CNMI has no formal deposit and investment policy other than the requirements stipulated in applicable bond indentures.

Cash and Cash Equivalents and Time Certificates of Deposit

Custodial credit risk is the risk that in the event of a bank failure, the CNMI's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The CNMI does not have a deposit policy for custodial credit risk.

As of September 30, 2012, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit were \$26,862,586 and the corresponding bank balances were \$27,575,204. Of the bank balance amounts, \$8,021,680 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$17,683,584 represents short-term investments held and administered by the CNMI's trustees in accordance with various trust agreements and bond indentures and \$1,869,940 represents amounts maintained in a non-FDIC insured bank. Based on negotiated trust and custody contracts, all of the investments were held in the CNMI's name by the CNMI's custodial financial institutions at September 30, 2012. As of September 30, 2012, bank deposits in the amount of \$7,308,939 were FDIC insured. Public Law No. 12-61, the Government Deposit Safety Act of 1994, as amended, governs the general deposit policies of the CNMI and requires that all deposits of public funds made by the CNMI are to be collateralized by U.S. Government obligations at the rate of 100% of the corresponding bank deposit. Compliance with Public Law No. 12-61 as of September 30, 2012, is presently not determinable. Accordingly, these deposits are exposed to custodial credit risk.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

Cash and Cash Equivalents and Time Certificates of Deposit, Continued

Restricted cash and cash equivalents for the primary government represent amounts held and administered by the CNMI in accordance with legal mandates and certain capital projects. Restricted cash and cash equivalents at September 30, 2012 amounted to \$17,681,645.

As of September 30, 2012, the carrying amount of the Fiduciary Fund's total cash and cash equivalents were \$11,325,115 and the corresponding bank balances were \$14,076,212, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2012, bank deposits in the amount of \$2,556,660 were FDIC insured. NMIRF has a legal requirement to collateralize amounts in excess of insurable limits. At September 30, 2012, approximately \$9,390,030 of NMIRF's cash and cash equivalents are collateralized with their bank's securities.

As of September 30, 2012, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit were \$55,060,232 and the corresponding bank balances were \$53,505,101. Of the bank balance amounts, \$49,574,994 is maintained in financial institutions subject to FDIC insurance and \$42,150 represents amounts maintained in a non-FDIC insured bank. The remaining amount of \$3,887,957 represents amount held and administered by the discretely presented components units' investment manager subject to Securities Investor Protection Corporation (SIPC) insurance up to \$250,000 with coverage in excess of SIPC provided by a supplemental insurance policy through certain underwriters with a per client aggregate limit of \$1.9 million. As of September 30, 2012, bank deposits in the amount of \$5,212,280 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Investments

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the CNMI.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the CNMI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The CNMI's investments are held and administered by trustees in accordance with various bond indentures for the purpose of funding various capital projects, land settlement claims and future debt service requirements. Based on negotiated trust and custody contracts, all of these investments were held in the CNMI's name by the CNMI's custodial financial institutions at September 30, 2012.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

Investments, Continued

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The CNMI does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

A. Governmental Funds

As of September 30, 2012, the General Fund holds 17% and 11% of the shares of the Pacific Islands Development Bank and the United Micronesia Development Association, Inc. in the amount of \$1,000,000 and \$1,500,000, respectively. As the fair market value of these investments is not readily available, such have been recorded at cost.

B. Fiduciary Funds

NMIRF:

As of September 30, 2012, NMIRF's investment breakdown is as follows:

<u>Investment Type</u>	<u>Carrying Value</u>		<u>Total</u>
	<u>DB Plan</u>	<u>DC Plan</u>	
Investments categorized:			
Mortgage pass-throughs	\$ 101,153,281	\$ -	\$ 101,153,281
Collateralized mortgage obligations	6,741,715	-	6,741,715
Foreign stocks	1,696,361	-	1,696,361
Total categorized	<u>109,591,357</u>	<u>-</u>	<u>109,591,357</u>
Investments not categorized:			
Money market funds	1,621,793	-	1,621,793
Stock mutual funds	-	28,922,737	28,922,737
Cash equivalents	18	-	18
Mutual bond funds	106,855,977	-	106,855,977
Total not categorized	<u>108,477,788</u>	<u>28,922,737</u>	<u>137,400,525</u>
Total investments	\$ <u>218,069,145</u>	\$ <u>28,922,737</u>	\$ <u>246,991,882</u>

Credit Risk

NMIRF utilizes external investment managers to manage its portfolios. NMIRF's investment policy for its DB Plan specifies the following regarding fixed income investments held in its portfolio:

- All fixed income securities shall have a Moody's, Standard and Poor's and/or Fitch credit quality rating of no less than BBB.
- The exposure of the portfolio to any one company, other than securities of the U.S. government, shall not exceed 5% of the market value of the portfolio under management by each investment manager.
- Each fixed income portfolio of each investment manager shall be suitably diversified as to any single issuer or class of issuer so that an adversity affecting a particular issuer or sector will not impact a substantial share of the total portfolio.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

Investments, Continued

B. Fiduciary Funds, Continued

NMIRF, Continued:

Credit Risk, Continued

- NMIRF's portfolios per investment managers are regularly reviewed to ensure compliance to the abovementioned requirements.

Interest Rate Risk

Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that NMIRF manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Summarized below are NMIRF's fixed income investments and their maturities:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Mutual bond funds	\$ 106,855,977	\$ 106,855,977	\$ -	\$ -	\$ -	Unrated
Mortgage pass-throughs	101,153,281	-	-	-	101,153,281	Aaa/AAA
Collateralized mortgage obligations	6,741,715	-	-	-	6,741,715	Aaa/AAA
	<u>\$ 214,750,973</u>	<u>\$ 106,855,977</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 107,894,996</u>	

Figures were from NMIRF's fixed income portfolio managed by external investment managers.

Securities Lending

CNMI statutes permit NMIRF to participate in securities lending transactions, and NMIRF has, pursuant to a Securities Lending Authorization Agreement, authorized an agent in lending NMIRF's securities to broker-dealers and banks pursuant to a form of loan agreement. During the year ended September 30, 2012, the agent loaned, on behalf of NMIRF, securities, including U.S. government obligations, domestic corporate bonds, and domestic and international equities, held by agent as custodian and received, as collateral, United States and foreign currency cash, securities issued or guaranteed by the United States government, sovereign debt of foreign countries and irrevocable bank letters of credit. The agent does not have the ability to pledge or sell collateral securities absent borrower default. Borrowers delivered collateral for each loan equal to 125% of the fair value of the loaned securities. In accordance with GASB Statement No. 28, securities lending collateral reported in the statement of plan net assets represented only cash collateral invested in the lending agent's cash collateral investment pool.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

Investments, Continued

B. Fiduciary Funds, Continued

NMIRF, Continued:

Securities Lending Collateral Interest Rate Risk

Cash collaterals from loans of securities are reinvested by the investment manager. A duration mismatch between loan and reinvestment is limited to a conservative maximum of fifteen days.

Securities loaned are covered by a contractual indemnification against broker default, that is, if a broker fails to return loaned securities when required, the investment manager will, within two business days, and at its expense, either replace the loaned securities or credit NMIRF for the market value of the unreturned loaned securities determined as of the close of business on the date the securities should have been returned.

Concentration of Credit Risk

As of September 30, 2012, NMIRF had no single issuer that exceeds 5% of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded.

Custodial Credit Risk

As of September 30, 2012, 100% of NMIRF's investments were held in NMIRF's name, and NMIRF is not exposed to custodial credit risk related to these investments.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

NMIRF's investments in foreign currency are comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held as a form of investment. Foreign currency is held for less than thirty days in foreign accounts until it can be repatriated or expended.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

Investments, Continued

B. Fiduciary Funds, Continued

NMIRF, Continued:

Derivatives

NMIRF's investment policy allows investment managers to use derivative instruments for certain purposes and within certain parameters. Such instruments include currency contracts, including futures and forward contracts, to hedge foreign currency exposure into U.S. dollars. Leverage may not be used and an investment manager may not hedge more than 25% of the value of the non US assets managed by such investment manager. There were no investments in derivative instruments as of September 30, 2012.

WCC:

WCC's investments are held by a bank administered trust company. Investments at September 30, 2012, are as follows:

Stock mutual fund	\$ 526,194
Mutual bond funds	336,762
Money market placements	<u>1,470</u>
	<u>\$ 864,426</u>

The following is a listing of WCC's fixed income securities at September 30, 2012:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>				<u>Credit Rating</u>
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>	
Mutual bond funds	\$ <u>336,762</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>336,762</u>	\$ <u>-</u>	Aa/AA

C. Discretely Presented Component Units

CPA:

CPA's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on those agreements, all of those deposits were held in CPA's name by CPA's custodial financial institutions at September 30, 2012. As of September 30, 2012, investments at fair value consist of investments in U.S. Government money market placements amounting to \$17,313,055.

MPLT:

MPLT's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on these agreements, all of these investments are held in MPLT's name by MPLT's custodial financial institutions at September 30, 2012.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

Investments, Continued

C. Discretely Presented Component Units, Continued

MPLT, Continued:

As of September 30, 2012, investments at fair value are as follows:

Mutual funds	\$ 8,993,712
Fixed income securities:	
Domestic fixed income	36,614,657
Other investments:	
Domestic equities	<u>14,170,625</u>
	<u>\$ 59,778,994</u>

The following is a listing of MPLT's fixed income securities at September 30, 2012:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Asset and mortgage backed securities	\$ 924,505	\$ -	\$ 49,943	\$ -	\$ 874,562	AAA
Asset and mortgage backed securities	80,274	-	-	-	80,274	Aaa
Asset and mortgage backed securities	5,458,544	-	5,771	202,049	5,250,724	AA+
Asset and mortgage backed securities	28,135	-	-	-	28,135	NA
Government bonds	463,788	-	-	-	463,788	AA+
Municipal bonds	143,173	-	-	-	143,173	A+
Corporate bonds	1,777,546	350,776	-	1,311,486	115,284	AA+
Corporate bonds	6,917	-	-	-	6,917	AA-
Corporate bonds	4,706,224	300,259	2,412,596	1,370,438	622,931	A
Corporate bonds	1,164,340	-	200,193	764,976	199,171	A+
Corporate bonds	9,918,504	350,669	648,680	8,429,633	489,522	A-
Corporate bonds	774,720	-	450,723	211,136	112,861	BBB
Corporate bonds	1,955,764	120,007	1,181,309	125,059	529,389	BBB+
Corporate bonds	1,237,529	17,241	619,292	429,884	171,112	BBB-
Corporate bonds	1,303,742	-	419,135	600,128	284,479	BB
Corporate bonds	1,148,781	-	536,355	493,170	119,256	BB+
Corporate bonds	1,705,754	-	1,040,975	532,241	132,538	BB-
Corporate bonds	901,370	-	62,350	697,098	141,922	B
Corporate bonds	1,285,247	-	134,354	764,916	385,977	B+
Corporate bonds	647,133	-	364,527	282,606	-	B-
Corporate bonds	29,751	-	3,188	26,563	-	CCC
Corporate bonds	148,034	-	91,625	56,409	-	CCC+
Corporate bonds	679,796	-	460,207	127,890	91,699	NA
Corporate bonds	<u>125,086</u>	<u>-</u>	<u>108,408</u>	<u>-</u>	<u>16,678</u>	NR
	<u>\$ 36,614,657</u>	<u>\$ 1,138,952</u>	<u>\$ 8,789,631</u>	<u>\$ 16,425,682</u>	<u>\$ 10,260,392</u>	

NMC:

NMC's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on these agreements, all of these investments were held in NMC's name by NMC's custodial financial institutions at September 30, 2012.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

Investments, Continued

C. Discretely Presented Component Units, Continued

NMC, Continued:

As of September 30, 2012, investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ <u>1,891,910</u>
Other investments:	
Domestic equities	2,937,286
Other	<u>1,335,509</u>
	<u>4,272,795</u>
	<u>\$ 6,164,705</u>

The following is a listing of NMC's fixed income securities at September 30, 2012:

Investment Type	Fair Value	Investment Maturities (In Years)				Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Government and GSE bonds	\$ 810,398	\$ -	\$ 556,294	\$ 178,412	\$ 75,692	AAA
Government and GSE bonds	193,431	-	66,042	-	127,389	No rating
Corporate bonds	44,566	23,351	21,215	-	-	AA+
Corporate bonds	85,869	-	-	-	85,869	AA
Corporate bonds	51,076	23,951	-	27,125	-	AA-
Corporate bonds	102,918	-	26,060	22,650	54,208	A+
Corporate bonds	43,536	-	-	20,247	23,289	A
Corporate bonds	100,727	-	72,260	28,467	-	A-
Corporate bonds	51,790	-	26,110	25,680	-	BBB+
Corporate bonds	221,943	37,154	52,591	50,498	81,700	BBB
Corporate bonds	17,380	-	8,580	8,800	-	BBB-
Corporate Bonds	20,433	-	-	20,433	-	B+
Corporate bonds	8,600	-	8,600	-	-	B
Corporate bonds	18,990	-	-	18,990	-	B-
Corporate bonds	19,120	-	9,220	9,900	-	BB+
Corporate bonds	35,830	-	18,180	17,650	-	BB
Corporate bonds	55,178	-	37,488	17,690	-	BB-
Corporate bonds	10,125	-	10,125	-	-	CCC
	<u>\$ 1,891,910</u>	<u>\$ 84,456</u>	<u>\$ 912,765</u>	<u>\$ 446,542</u>	<u>\$ 448,147</u>	

(3) Receivables

Governmental Funds

Receivables as of September 30, 2012, for the primary government's individual major governmental funds and nonmajor governmental funds in the aggregate, including allowances for uncollectible accounts, are as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(3) Receivables, Continued

Governmental Funds, Continued

	<u>General</u>	<u>Grants Assistance</u>	<u>Department of Public Lands</u>	<u>Private Grants</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Receivables:						
Federal agencies	\$ -	\$ 23,190,850	\$ -	\$ 284,562	\$ 2,508,038	\$ 25,983,450
Other	3,543,054	-	-	-	-	3,543,054
Taxes	10,506,533	-	-	-	-	10,506,533
General	<u>2,095,301</u>	<u>12,831</u>	<u>16,119,487</u>	<u>-</u>	<u>1,209,830</u>	<u>19,437,449</u>
Gross receivables	16,144,888	23,203,681	16,119,487	284,562	3,717,868	59,470,486
Less allowance for uncollectibles	<u>(5,040,254)</u>	<u>(12,705,919)</u>	<u>(15,222,360)</u>	<u>-</u>	<u>(715,369)</u>	<u>(33,683,902)</u>
Net receivables	\$ <u>11,104,634</u>	\$ <u>10,497,762</u>	\$ <u>897,127</u>	\$ <u>284,562</u>	\$ <u>3,002,499</u>	\$ <u>25,786,584</u>

Receivables are primarily due from businesses and individuals residing in the CNMI. The allowance for uncollectibles primarily represents estimated uncollectible amounts that are determined based upon past collection experience and aging of the accounts.

Fiduciary Funds

Receivables as of September 30, 2012, for the fiduciary funds, including allowances for uncollectible accounts, are as follows:

	<u>NMIRF</u>	<u>GHLTF</u>	<u>WCC</u>	<u>Total</u>
Receivables:				
Contributions	\$ 48,216,576	\$ -	\$ -	\$ 48,216,576
Loan	5,707,338	-	-	5,707,338
Notes	7,341,522	-	-	7,341,522
Benefits	7,526,082	-	308,326	7,834,408
Interest and dividends	575,174	-	-	575,174
Other	<u>1,158,832</u>	<u>56</u>	<u>6,153</u>	<u>1,165,041</u>
Gross receivables	70,525,524	56	314,479	70,840,059
Less allowance for uncollectibles	<u>(48,216,576)</u>	<u>-</u>	<u>-</u>	<u>(48,216,576)</u>
Net receivables	\$ <u>22,308,948</u>	\$ <u>56</u>	\$ <u>314,479</u>	\$ <u>22,623,483</u>

Contributions receivable of \$48,216,576 recorded by the NMIRF represent amounts owed to the NMIRF for employer contributions from various CNMI autonomous agencies. At September 30, 2012, a corresponding allowance for uncollectible contribution receivables of \$48,216,576 is recorded by the NMIRF.

Loan receivable of \$5,707,338 recorded by the NMIRF represents a receivable from the CNMI pursuant to a loan agreement entered into in February 28, 1995. The loan is for a period of twenty years, with interest rate at 7.75% per annum and payable in monthly installments of \$120,000.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(3) Receivables, Continued

Fiduciary Funds, Continued

Notes receivable recorded by the NMIRF includes \$4,317,174 at September 30, 2012 under the NMIRF's Member Home Loan Program (MHLP). The MHLP was created through Public Law 6-17, which authorized up to 40% of NMIRF's assets to be made available to the program. Borrowings are restricted to the construction, purchase, and improvement of principal residence or refinancing of existing mortgages on a member's home. NMIRF can lend amounts ranging from \$5,000 to \$150,000 at interest rates of 8.5% to 9% per annum. Notes receivable also include \$1,499,942 at September 30, 2012 due from the Municipality of Tinian pursuant to a memorandum of understanding to convert past due employer contributions to notes receivable bearing interest at 9% per annum, payable in monthly installments of \$15,000 until January 1, 2021. Remaining notes receivable of \$1,524,406 at September 30, 2012 represent a receivable due from CGECU. The note is for a period of thirty years beginning October 12, 1995 and bears interest at an initial rate of 8% per annum and adjusted at a rate that is at least equal to the actuarially assumed rate of return on NMIRF's plan assets. For the year ended September 30, 2012, the interest rate is 7.5% per annum.

Discretely Presented Component Units

Receivables as of September 30, 2012, for the discretely presented component units, including allowances for uncollectible accounts are as follows:

	CPA	CDA	CUC	MPLT	NMC	PSS	MVA	CHCC	Total
Receivables:									
Loans	\$ 3,385,131	\$ 53,787,747	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 57,172,878
Notes	-	-	1,732,577	15,173,444	-	-	-	-	16,906,021
Federal agencies	3,313,876	-	24,596	-	881,531	702,990	-	-	4,922,993
General	4,481,567	-	32,851,412	-	3,361,113	-	-	212,410,889	253,104,981
Interest and dividends	-	1,620,376	-	538,121	-	-	-	-	2,158,497
Other	<u>366,973</u>	<u>1,575,719</u>	<u>2,694,605</u>	<u>2,139,496</u>	<u>-</u>	<u>954,283</u>	<u>17,131</u>	<u>498</u>	<u>7,748,705</u>
Gross receivables	11,547,547	56,983,842	37,303,190	17,851,061	4,242,644	1,657,273	17,131	212,411,387	342,014,075
Less allowance for uncollectibles	<u>(5,256,768)</u>	<u>(37,347,078)</u>	<u>(19,251,221)</u>	<u>(4,950,639)</u>	<u>(1,926,956)</u>	<u>-</u>	<u>-</u>	<u>(203,107,022)</u>	<u>(271,839,684)</u>
Net receivables	<u>\$ 6,290,779</u>	<u>\$ 19,636,764</u>	<u>\$ 18,051,969</u>	<u>\$ 12,900,422</u>	<u>\$ 2,315,688</u>	<u>\$ 1,657,273</u>	<u>\$ 17,131</u>	<u>\$ 9,304,365</u>	<u>\$ 70,174,391</u>

Loans and notes receivable recorded by the discretely presented component units consist of the following:

CPA:

Loan receivable from CUC, bearing interest at 6.25% per annum over a term of five years, commencing on July 1, 2008 as reimbursement for project costs paid by CPA for the Sewerline Project and loan receivable from CUC, bearing interest at 6.25% per annum, for repayment of wharfage fees. CPA's utility charges can be offset in lieu of payments. Due to the potential uncollectability, the amount has been fully allowed for.

\$ 3,385,131

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(3) Receivables, Continued

Discretely Presented Component Units, Continued

CDA:

Economic development loans for commercial purposes due within various periods not to exceed thirty (30) years. The interest rates charged are based on the economic purpose of the loan. Production development loans bear interest at 7% to 9% per annum, marine and agriculture loans bear interest at 4.5% per annum, commercial development loans bear interest at 7% to 9% per annum, and microloans bear interest at 7% to 12% per annum. In October 2007, CDA initiated a "Debt Relief Program", which provides for reduction of interest to two percent and extension of term up to thirty years with a mandated three year callable provision where warranted and justified.

\$ 37,061,584

NMHC housing loans for the specific purpose of providing residents of the Northern Mariana Islands with approved low-cost housing. The loans have terms from ten to thirty-three years in duration at interest rates of 4.5% to 12% per annum.

11,474,724

Loan receivable from CPA, bearing interest at 2.5% per annum, with quarterly principal and interest payments in the amount of \$204,113, with maturity date of November 16, 2014. Proceeds were used for the Saipan Harbor Project. On June 29, 2010, the note was revised with monthly principal and interest payments in the amount of \$31,000, with maturity date of June 15, 2030.

5,251,439

\$ 53,787,747

CUC:

Notes receivable from customers, bearing interest at 12% per annum, with terms ranging from six months to ten years.

\$ 1,732,577

MPLT:

Notes receivable (Home Loan Program) from various individuals obtained through a settlement agreement with NMHC dated December 31, 2007, interest at 2% per annum (5.5% to 8.5% prior to January 1, 2009) and terms from ten to thirty years.

\$ 8,357,629

Note receivable from Adelantun Publickun Luta Enteramente, Incorporated (APLE 501, Inc.), interest at 5% per annum, due on October 18, 2017, with monthly principal and interest payments in the amount of \$1,225, collateralized by a loan portfolio. Proceeds were used to fund an independently administered individual or parent-student loan program. MPLT has ceased future loan commitments and disbursements to APLE 501, Inc.

120,639

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(3) Receivables, Continued

Discretely Presented Component Units, Continued

MPLT, Continued:

Note receivable from CDA, interest at 6.5% per annum, due on June 1, 2018, collateralized by future distributable net income for the maintenance and development of the American Memorial Park and is to be repaid from earnings of the investments pursuant to CNMI Public Law 11-72.	980,642
Note receivable from the CNMI Government, interest at 7% per annum. Public Law 17-7 earmarks and appropriates from future interest income distributions of fiscal years 2009, 2010, 2012 and additional future fiscal years until the note is fully reimbursed. Interest is due annually.	2,385,846
Note receivable from CHCC, interest at 7% per annum, due on March 12, 2013, collateralized by future distributable income of fiscal year 2014 and CHCC's real properties for CHCC's operational and bridge capital pursuant to CNMI Public Law 17-76.	3,000,033
Note receivable from CHCC, interest at 7% per annum, due on September 12, 2013, collateralized by future distributable income of fiscal year 2014 and CHCC's real properties for CHCC Health Information Technology/Electronic Health Records Project pursuant to CNMI Public Law 17-76.	<u>328,655</u>
	<u>\$ 15,173,444</u>

(4) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the governmental funds balance sheet at September 30, 2012, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	DPL	\$ 1,625,813
General	Nonmajor governmental	623,183
General	Grants Assistance	5,833,378
Grants Assistance	General	3,575,539
Private Grants	General	3,913,124
Nonmajor governmental	General	6,593,845
Fiduciary	General	<u>1,379,540</u>
		<u>\$ 23,544,422</u>

These balances result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made and are scheduled to be collected in the subsequent year.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(4) Interfund Receivables and Payables, Continued

Balances reflected as due to/from component units as of September 30, 2012, are summarized as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
PSS	General	\$ 4,579,269
NMC	General	177,562
MVA	General	6,528,738
CUC	General	2,382,690
MPLT	General	2,385,846
CHCC	General	6,307,797
CUC	DPL	<u>307,109</u>
		<u>\$ 22,669,011</u>

The amount recorded as due from component units of the primary government of \$-0- does not equal the corresponding due to primary government of the discretely presented component units of \$8,891,178 due to CPA and CUC recording 1% public auditor fee of \$1,954,443 and \$5,862,282, respectively, for which the primary government recorded a corresponding allowance and advances from primary government of \$107,296 attributed to timing difference. The difference of \$967,157 with CHCC is due to unaudited financial statements.

The amount recorded as due from primary government of the discretely presented component units of \$9,636,948 does not equal the corresponding due to component units of the primary government of \$22,669,011 by \$13,032,063. The difference of \$2,689,799 with CUC is due to the amount recorded as general receivables by CUC. The difference of \$2,385,846 with MPLT is due to the amount recorded as notes receivables by MPLT. The difference of \$1,648,621 is due to an allowance recorded by MVA. The difference of \$6,307,797 with CHCC is due to unaudited financial statements.

The amount recorded as due to Pension (and Other Employee Benefit) Trust Fund of \$-0- does not equal the corresponding due from the general fund and due from nonmajor special revenue funds of the Fiduciary Funds of \$259,628,483 as a result of the Settlement Agreement discussed in note 18.

Of the amount due from the General Fund of \$259,628,483 and due from component units of \$59,093,176, the Pension (and Other Employee Benefit) Trust Fund recorded an allowance for uncollectible receivables of \$240,005,019 as of September 30, 2012. The remaining due from the General Fund of \$78,716,640 has been offset by deferred revenue of the same amount.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(5) Restricted Assets

Governmental Funds

Restricted assets of \$14,553,369 recorded in the General Fund represents cash and cash equivalents of \$2,257,765 for capital projects, \$144,524 for tax rebate payments, \$2,115,156 for federal programs and projects, \$704,231 for future debt service requirements, \$4,348,056 for State Small Business Credit Initiative (SSBCI) payments and \$4,983,637 for other various purposes.

Restricted assets of \$2,991,394 recorded in the Grants Assistance Fund represents \$2,806,129 cash and cash equivalents restricted for capital projects, and \$185,265 for federal programs and projects.

Restricted assets of \$136,882 recorded in the Other Governmental Funds represent cash and cash equivalents of \$129,965 for capital projects and \$6,917 for other purposes.

Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund

WCC

Restricted assets of \$133,380 as of September 30, 2012, represents time certificates of deposit established for the purpose of making compensation for injury increasing disability in accordance with Subsection (f) of Section 9308 of Public Law 10-19.

Fiduciary Fund Type - Agency Fund

Restricted assets of \$2,219,651 as of September 30, 2012, represent deposits of foreign investors required by law to operate a business in the CNMI.

Discretely Presented Component Units

CPA:

Restricted assets of CPA as of September 30, 2012, represent the unused proceeds of the Airport Revenue Bonds and the Seaport Revenue Bonds, both issued on March 26, 1998, deposited with the Trustee. The Trustee is a commercial lending institution and the securities are held in the name of CPA. Disbursements from unused bond proceeds are to be made solely for the purpose of paying the costs of the projects, and pursuant to the Act establishing CPA (Public Law No. 2-48), payment of the costs of issuance and the payment of bond principal and interest to the extent provided in the Indenture.

<u>Fund</u>	<u>Airport Revenue Bonds</u>	<u>Seaport Revenue Bonds</u>	<u>Total</u>
Bond Reserve Fund	\$ 1,583,283	\$ 3,479,674	\$ 5,062,957
Supplemental Reserve Fund	-	8,034,239	8,034,239
Construction Fund	-	7,178	7,178
Reimbursement Fund	-	5,807	5,807
Bond Fund	390,721	747,581	1,138,302
Maintenance and Operation	2,029,752	1,021,185	3,050,937
Optional Redemption Fund	12,100	-	12,100
Revenue Fund	<u>724</u>	<u>811</u>	<u>1,535</u>
	\$ <u>4,016,580</u>	\$ <u>13,296,475</u>	\$ <u>17,313,055</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(5) Restricted Assets, Continued

Discretely Presented Component Units, Continued

CDA:

Restricted assets of CDA's Development Banking Division of \$4,441,501 represent the proceeds of Covenant funding and liquidated revenue bonds derived from pledged Covenant funding to be used for capital development purposes.

Restricted assets of NMHC represent depository accounts with financial institutions in the CNMI that are restricted for various purposes, as summarized below:

Escrow account maintained as a guarantee for any deficiency in foreclosure proceeds related to USDA Rural Development Loans	\$ 2,096,359
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development	199,738
Savings account maintained as a guarantee of housing loans made by a savings and loan in the CNMI	100
Checking account maintained for Section 8 Housing Choice Vouchers Program expenses	1,354,485
Other depository accounts reserved for various purposes	<u>87,310</u>
	<u>\$ 3,737,992</u>

CUC:

Cash and cash equivalents of \$9,194,457 as of September 30, 2012, represent customer deposits segregated pursuant to CUC policy. Of the \$9,194,457, \$7,500,000 is held as security pursuant to a letter of credit obtained from a financial institution to secure a \$7,500,000 credit limit for fuel purchases.

MPLT:

Restricted assets of \$59,778,994 represent investments held and administered by trustees in accordance with trust and custody agreements for purposes of investment and distribution to the CNMI General Fund in accordance with provisions of the CNMI Constitution.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(6) Fixed Assets and Depreciation

Capital asset activities for the year ended September 30, 2012, are as follows:

Primary Government

	Balance October 1, 2011	Additions	Retirements	Reclassifications	Balance September 30, 2012
Assets not being depreciated:					
Land	\$ 29,899,810	\$ -	\$ -	\$ -	\$ 29,899,810
Construction in progress	<u>18,782,896</u>	<u>8,509,334</u>	<u>(265,210)</u>	<u>(1,101,498)</u>	<u>25,925,522</u>
	<u>48,682,706</u>	<u>8,509,334</u>	<u>(265,210)</u>	<u>(1,101,498)</u>	<u>55,825,332</u>
Depreciable assets:					
Buildings and other improvements	179,982,105	-	-	-	179,982,105
Machinery and equipment	26,333,605	2,851,117	-	-	29,184,722
Infrastructure	<u>132,471,335</u>	<u>-</u>	<u>-</u>	<u>1,101,498</u>	<u>133,572,833</u>
	<u>338,787,045</u>	<u>2,851,117</u>	<u>-</u>	<u>1,101,498</u>	<u>342,739,660</u>
Accumulated depreciation:					
Buildings and other improvements	(59,922,140)	(5,671,220)	-	-	(65,593,360)
Machinery and equipment	(16,063,673)	(2,983,205)	-	-	(19,046,878)
Infrastructure	<u>(107,750,410)</u>	<u>(1,989,797)</u>	<u>-</u>	<u>-</u>	<u>(109,740,207)</u>
Total accumulated depreciation	<u>(183,736,223)</u>	<u>(10,644,222)</u>	<u>-</u>	<u>-</u>	<u>(194,380,445)</u>
Depreciable assets, net	<u>155,050,822</u>	<u>(7,793,105)</u>	<u>-</u>	<u>1,101,498</u>	<u>148,359,215</u>
	\$ <u>203,733,528</u>	\$ <u>716,229</u>	\$ <u>(265,210)</u>	\$ <u>-</u>	\$ <u>204,184,547</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Community and Social Services	\$ 1,160,193
General Government	841,789
Health	1,874,963
Public Works	3,653,018
Judicial Branch	291,274
Public Safety and Law Enforcement	2,720,482
Lands and Natural Resources	<u>102,503</u>

Total depreciation expense - governmental activities \$ 10,644,222

Fiduciary Funds

	Estimated Useful Lives	Balance at October 1, 2011	Additions	Retirements	Balance at September 30, 2012
Assets not being depreciated:					
Land		\$ 822,163	\$ -	\$ -	\$ 822,163
Depreciable assets:					
Building improvements	39 years	3,785,118	-	-	3,785,118
Software	3 - 15 years	584,219	-	-	584,219
Office furniture and fixtures	3 - 15 years	549,514	1,756	-	551,270
Other equipment	3 - 15 years	660,114	42,748	-	702,862
Vehicles	3 - 15 years	<u>109,080</u>	<u>-</u>	<u>-</u>	<u>109,080</u>
		5,688,045	44,504	-	5,732,549
Less accumulated depreciation		<u>(2,562,090)</u>	<u>(132,300)</u>	<u>-</u>	<u>(2,694,390)</u>
Depreciable assets, net		<u>3,125,955</u>	<u>(87,796)</u>	<u>-</u>	<u>3,038,159</u>
		\$ <u>3,948,118</u>	\$ <u>(87,796)</u>	\$ <u>-</u>	\$ <u>3,860,322</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(6) Fixed Assets and Depreciation, Continued

Discretely Presented Component Units

	Estimated Useful Lives	Balance at October 1, 2011	Additions	Retirements	Impairment	Balance at September 30, 2012
Assets not being depreciated:						
Land		\$ 45,745,837	\$ 184,348	\$ -	\$ (16,000)	\$ 45,914,185
Construction in progress		<u>63,012,085</u>	<u>15,241,424</u>	<u>(26,924,241)</u>	<u>-</u>	<u>51,329,268</u>
		<u>108,757,922</u>	<u>15,425,772</u>	<u>(26,924,241)</u>	<u>(16,000)</u>	<u>97,243,453</u>
Depreciable assets:						
Housing projects	30 years	7,935,186	83,112	-	-	8,018,298
Buildings	5 - 50 years	66,852,641	186,328	-	-	67,038,969
Harbor facilities	20 years	63,635,195	-	-	-	63,635,195
Infrastructure	30 years	4,415,173	10,966	-	-	4,426,139
Terminal facilities	20 years	93,784,809	725,019	-	-	94,509,828
Runway and improvements	20 years	96,125,110	17,708,871	-	-	113,833,981
Terminal equipment	2 - 10 years	10,756,477	6,634	-	-	10,763,111
Electric plant	20 years	130,656,131	1,840,020	(158,932)	-	132,337,219
Water plant	20 years	62,897,977	7,960,344	-	-	70,858,321
Sewer plant	20 years	42,693,604	3,146,277	-	-	45,839,881
Other improvements	3 - 20 years	27,222,850	630,119	(30,258)	-	27,822,711
Fire and rescue	2 - 8 years	11,527,325	-	-	-	11,527,325
Office furniture and fixtures	2 - 10 years	9,194,742	713,648	(16,151)	-	9,892,239
General transportation	3 - 5 years	9,392,286	455,455	-	-	9,847,741
Other equipment	3 - 5 years	3,559,244	345,534	-	-	3,904,778
Ground maintenance and shop equipment	2 - 5 years	<u>511,447</u>	<u>4,085</u>	<u>-</u>	<u>-</u>	<u>515,532</u>
		641,160,197	33,816,412	(205,341)	-	674,771,268
Less accumulated depreciation		<u>(371,731,704)</u>	<u>(23,653,081)</u>	<u>90,586</u>	<u>-</u>	<u>(395,294,199)</u>
Depreciable assets net		<u>269,428,493</u>	<u>10,163,331</u>	<u>(114,755)</u>	<u>-</u>	<u>279,477,069</u>
		\$ <u>378,186,415</u>	\$ <u>25,589,103</u>	\$ <u>(27,038,996)</u>	\$ <u>(16,000)</u>	\$ <u>376,720,522</u>

(7) Tax Rebates Payable

The CNMI makes significant estimates in determining tax rebates payable. A Rebate Trust Fund was established to account for amounts paid to the CNMI, with respect to taxes imposed, which are rebateable to taxpayers. P.L. 9-22, enacted in January 1995, repealed and re-enacted the CNMI tax code and removed the requirement of a Rebate Trust Fund. P.L. 9-57, enacted in October 1995, reestablished the Rebate Trust Fund. The reestablishment was not retroactive, and thus tax year liabilities are paid from subsequent year collections of the General Fund.

The rebate percentage is either 90%, 70% or 50%, based on the specified tax brackets for taxes paid. Tax rebate liabilities amounted to \$36,580,743 as of September 30, 2012. Cash to fund this liability is to be provided by the General Fund. Any changes in the estimate will be accounted for in a prospective manner.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(8) Recovery Rebates Payable

The Congress of the United States passed the Economic Stimulus Act of 2008, which was approved and became law on February 13, 2008 as U.S. Public Law 110-185 (the Act). Among other things, the Act provides economic stimulus through recovery rebates to individuals meeting certain criteria. The Act provides that the U.S. Department of Treasury will make payment to the CNMI in an amount equal to the aggregate amount of the credits allowable by reason of the provision to the CNMI's residents against their CNMI income tax to cover advance and final payments. In 2008, the CNMI received total funds of \$16,100,000 pursuant to the Act. The recovery rebates payable of \$399,298 recorded in the General Fund represents the remaining undisbursed funds as of September 30, 2012.

(9) Deferred Revenues

As of September 30, 2012, deferred revenues for the CNMI's fiduciary funds are as follows:

	<u>NMIRF</u>	<u>GHLITF</u>	<u>WCC</u>	<u>Totals</u>
Penalty on unpaid contributions	\$ 63,286,301	\$ -	\$ -	\$ 63,286,301
CNMI appropriations	15,026,333	-	18,429	15,044,762
Benefits receivable	7,526,082	-	-	7,526,082
Fines and other penalties	-	-	308,512	308,512
Special annuity	385,577	-	-	385,577
Prior service trust fund	<u>51,466</u>	<u>-</u>	<u>-</u>	<u>51,466</u>
	<u>\$ 86,275,759</u>	<u>\$ -</u>	<u>\$ 326,941</u>	<u>\$ 86,602,700</u>

Pursuant to Public Law No. 6-41, codified in 1CMC§ 8362, any employer who fails to pay or remit contributions as required by this section shall pay a penalty of 10% per month or part thereof for which the contribution remains unpaid, up to a maximum penalty of 25% of the unpaid contribution. At September 30, 2012, the penalty on unpaid contributions of \$63,286,301 represents assessed penalties on unpaid CNMI Government employer contributions of \$52,409,701 with the remaining penalty contributions of \$10,876,600 being assessed penalties on unpaid agencies' contributions.

The \$15,026,333 deferred revenue recorded by the NMIRF represents remaining uncollected appropriations from the CNMI Government of \$8,494,020 pursuant to Public Law No. 11-41, which earmarked 90% of poker machine licensing fees for the NMIRF, and \$6,532,313 pursuant to Public Law No. 8-31, which earmarked the NMIRF with \$2,000,000 for fiscal years 2004, 2005 and 2006.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(10) Long-Term Debt Obligations

NMIRF Loan

On February 28, 1995, the CNMI entered into a loan agreement with NMIRF, a Fiduciary Fund Type - Pension (and Other Employee Benefits) Trust Fund, for the construction of a Judicial Complex on the island of Saipan, in an amount not to exceed \$15,000,000. All revenue collected by the courts is deposited into the Judicial Building Fund, a Governmental Fund Type - Special Revenue Fund, to finance debt service on the loan. As of September 30, 2012, cash balances held by NMIRF for the retirement of debt totaled \$523. The loan was initially for a period of fifteen years, due February 28, 2010, with interest at 7.5% per annum, principal and interest payable in monthly installments of \$137,198. On July 15, 1999, the loan agreement was amended to extend the term of the loan to twenty years and to increase interest to 7.75% per annum. Pursuant to the amendment, principal and interest are payable in monthly installments of \$120,000. As of September 30, 2012, the principal outstanding and payable is \$5,707,338.

\$40,000,000 Bond Issue

On December 1, 2003, CDA, acting for and on behalf of the CNMI, issued \$40,000,000 in 2003A general obligation bonds, with interest rate at 6.75% per annum. The bonds were authorized by Public Law 13-17 as amended by Public Law 13-25, Public Law 13-39 and Public Law 13-56. Bond proceeds, net of bond issuance costs and discount of \$999,309, were used to fund the (i) land compensation claims amounting to \$28,000,691, (ii) the prison project of \$9,104,694 and (iii) reimburse CDA for interim financing of \$1,895,306.

Installments of principal are paid to the Bond Trustee annually commencing October 1, 2009 through October 1, 2033. Interest is payable semiannually beginning April 1, 2004 through October 1, 2033.

The 2003 Series A general obligation bonds are subject to redemption.

- (a) Optional Redemption - The bonds maturing after October 1, 2013 are subject to redemption prior to their respective maturities, at the option of the Commonwealth, from any source of available funds, on any date on or after October 1, 2013, as a whole, or in part by such maturity or maturities as may be specified by request of the Commonwealth (and by lot within a maturity as selected by the Trustee), at a redemption price of one hundred percent (100%) of the principal amount thereof plus accrued interest thereon to the dated fixed for redemption.
- (b) Mandatory Redemption from Sinking Fund Payments - The bonds are subject to redemption prior to their stated maturities, in part, by lot, from mandatory sinking fund payments deposited in the principal account in the Bond Payment Fund pursuant to Section 4.05 of this Indenture, on each October 1 from and after October 1, 2009, at the principal amount thereof plus accrued interest thereon, if any, to the date of redemption (without premium).

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(10) Long-Term Debt Obligations, Continued

\$40,000,000 Bond Issue, Continued

- (c) Partial Redemption of Bonds - Upon surrender of any bond redeemed in part only, the Paying Agent shall provide a replacement bond in a principal amount equal to the portion of such bond not redeemed, and deliver it to the registered owner thereof. The bond so surrendered shall be cancelled by the Paying Agent as provided herein. The Authority, the Trustee and the Paying Agent shall be fully released and discharged from all liability to the extent of payment of the redemption price for such partial redemption.
- (d) Effect of Redemption - Moneys for payment of the redemption price of, together with interest accrued to the redemption date on, the bonds (or portions thereof) so called for redemption being held by the Paying Agent, on the redemption date designated in such notice, shall become due and payable at the redemption price specified in such notice and interest accrued thereon to the redemption date, said bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Holders of said bonds shall have no rights in respect thereof except to receive payment of said redemption price and accrued interest to the redemption date. Any accrued interest payable upon the redemption of bonds may be paid from amounts held in the interest account for the payment of interest on the next following interest payment date.

All bonds redeemed pursuant to the provision of this Article, shall be cancelled upon surrender thereof and shall be destroyed by the Paying Agent, who shall thereupon deliver to the Trustee or the Authority a certificate evidencing such destruction if so requested.

As of September 30, 2012, principal outstanding and payable is \$1,700,000 less unamortized discount on bond issuance of \$26,574.

Refunding of Debt

In April 2007, the CNMI issued \$100,490,000 of Series 2007A and Series 2007B General Obligation bonds to primarily refund the outstanding debt obligations of the Series 2000A and Series 2003A General Obligation bonds, and to pay certain expenses related to the issuance of the bonds. The primary purpose of the refunding was to refinance at lower interest rates. The refunding resulted in a cash flow savings of \$7,801,220 and did not extend the length of original bonds.

The refunding resulted in the advance defeasance of approximately 95% of the Series 2000A and Series 2003A General Obligation bonds by placing deposits in an irrevocable trust and escrow account for the purchase of U.S. government securities to pay the principal and interest on the defeased bonds as they are due and payable. For financial reporting purposes, both the defeased bonds outstanding and the escrowed securities have been excluded from the accompanying financial statements.

Although the advance refunding resulted in the recognition of an accounting loss of \$8.2 million for the year ended September 30, 2007, the CNMI in effect reduced its aggregate debt service payments by \$7.8 million over the next twenty-six years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$7.475 million.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(10) Long-Term Debt Obligations, Continued

Refunding of Debt, Continued

At September 30, 2012, Series 2003A bonds outstanding of \$37,400,000 are considered defeased.

\$57,800,000 Bond Issue

In April 2007, CDA, acting for and on behalf of the CNMI, issued general obligation refunding bonds, Series 2007A in the aggregate principal amount of \$57,800,000 with interest rate at 5% per annum to refund \$52,435,000 of the 2000 Series A general obligation bonds. Installments of principal are to be paid to the Bond Trustee annually commencing June 1, 2009 through June 1, 2030. Interest is payable semi-annually beginning December 1, 2007 through June 1, 2030.

Amount outstanding and payable as of September 30, 2012, consist of the following:

Series 2007A general obligations refunding bonds	\$ 52,220,000
Unamortized premium on bond issuance	78,740
Deferred difference on debt refunding	<u>(2,336,692)</u>
	<u>\$ 49,962,048</u>

\$42,690,000 Bond Issue

In April 2007, CDA, acting for and on behalf of the CNMI, issued general obligations refunding bonds, Series 2007B in the aggregate principal amount of \$42,690,000 with interest rate at 5% per annum to refund \$37,400,000 of the 2003 Series A general obligation bonds. Installments of principal are to be paid to the Bond Trustee annually commencing October 1, 2011 through October 1, 2033. Interest is payable semi-annually beginning October 1, 2007 through October 1, 2033.

Amount outstanding and payable as of September 30, 2012, consist of the following:

Series 2007B general obligations refunding bonds	\$ 42,385,000
Unamortized premium on bond issuance	53,977
Deferred difference on debt refunding	<u>(4,167,564)</u>
	<u>\$ 38,271,413</u>

Changes in long-term liabilities for the year ended September 30, 2012, are as follows:

	Balance October 1, 2011	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2012	Due Within One Year
Loans and bonds payable:					
NMIRF loan	\$ 5,885,216	\$ -	\$ (177,878)	\$ 5,707,338	\$ 3,155,134
2003 Series A Bonds	2,400,000	-	(700,000)	1,700,000	800,000
2007 Series A Bonds	54,645,000	-	(2,425,000)	52,220,000	2,550,000
2007 Series B Bonds	<u>42,690,000</u>	<u>-</u>	<u>(305,000)</u>	<u>42,385,000</u>	<u>320,000</u>
	105,620,216	-	(3,607,878)	102,012,338	6,825,134

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(10) Long-Term Debt Obligations, Continued

	<u>Balance October 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2012</u>	<u>Due Within One Year</u>
Deferred amounts:					
Deferred difference on debt refunding	(6,813,983)	-	309,727	(6,504,256)	(309,727)
Unamortized discount on bonds issued	(27,839)	-	1,265	(26,574)	(1,265)
Unamortized premium on bonds issued	<u>139,037</u>	<u>-</u>	<u>(6,320)</u>	<u>132,717</u>	<u>6,320</u>
	<u>98,917,431</u>	<u>-</u>	<u>(3,303,206)</u>	<u>95,614,225</u>	<u>6,520,462</u>
Other:					
Obligations under Settlement Agreement (see Note 18)	-	267,089,307	-	267,089,307	-
Compensated absences	6,874,988	5,822,151	(6,926,396)	5,770,743	3,147,989
Landfill closure	<u>3,435,632</u>	<u>381,736</u>	<u>-</u>	<u>3,817,368</u>	<u>-</u>
	<u>10,310,620</u>	<u>273,293,194</u>	<u>(6,926,396)</u>	<u>276,677,418</u>	<u>3,147,989</u>
	<u>\$ 109,228,051</u>	<u>\$ 273,293,194</u>	<u>\$ (10,229,602)</u>	<u>\$ 372,291,643</u>	<u>\$ 9,668,451</u>

The annual debt service requirements to maturity for the NMIRF loan payable is as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 3,155,134	\$ 251,590	\$ 3,406,724
2014	1,285,228	154,771	1,439,999
2015	<u>1,266,976</u>	<u>50,060</u>	<u>1,317,036</u>
	<u>\$ 5,707,338</u>	<u>\$ 456,421</u>	<u>\$ 6,163,759</u>

The annual debt service requirements to maturity for general obligation bonds payable is as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 3,670,000	\$ 4,810,000	\$ 8,480,000
2014	3,915,000	4,608,625	8,523,625
2015	4,050,000	4,404,625	8,454,625
2016	4,295,000	4,199,625	8,494,625
2017	4,440,000	3,984,875	8,424,875
2018 - 2022	20,605,000	15,730,750	36,335,750
2023 - 2027	26,120,000	11,381,625	37,501,625
2028 - 2032	23,065,000	4,258,750	27,323,750
2033 - 2034	<u>6,145,000</u>	<u>311,125</u>	<u>6,456,125</u>
	<u>\$ 96,305,000</u>	<u>\$ 53,690,000</u>	<u>\$ 149,995,000</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(10) Long-Term Debt Obligations, Continued

Obligations Under Settlement Agreement

The CNMI has agreed to make the following minimum annual payments under the Settlement Agreement (see Note 18) for the following fiscal years:

Year ending September 30,

2014	\$ 25,000,000
2015	\$ 27,000,000

After fiscal year 2015, the CNMI has agreed to make minimum annual payments to the Settlement Fund sufficient to enable the Settlement Fund to pay 75% of Class Members' Full Benefits each year for the Settlement Fund's expected life and as determined by an independent actuary appointed by the Trustee and approved by the District Court. The Parties project that the minimum annual payments necessary to enable the Settlement Fund to pay 75% of Class Members' Full Benefits each year will likely be at least:

2016	\$ 30,000,000
2017	\$ 33,000,000
2018	\$ 45,000,000
2019	\$ 44,000,000
2020	\$ 43,000,000
2021	\$ 42,000,000
2022	\$ 41,000,000
2023	\$ 40,000,000
2024	\$ 39,000,000

The CNMI has agreed to continue to make annual payments in these minimum amounts unless the District Court determines after a hearing that a different amount is required to enable payment to Class Members of 75% of their Full Benefits.

After fiscal year 2024, the CNMI has agreed to make minimum annual payments to the Settlement Fund sufficient to enable the Settlement Fund to pay 75% of Class Members' Full Benefits each year for the Settlement Fund's expected life as determined by an independent actuary appointed by the Trustee and approved by the District Court.

Discretely Presented Component Units

CPA:

Note payable to CDA, due November 16, 2014, interest at 2.5% per annum, with maturity date of June 15, 2030. Principal and interest payments in the amount of \$31,000 are due monthly beginning June 15, 2010. The payment of accrued interest totaling \$546,679 has been deferred until the maturity of the loan or until the loan is paid off, whichever comes first.

\$ 5,251,438

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(10) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

CDA:

Note payable to MPLT, bearing interest at 6.5% per annum, due over a fifteen-year term, beginning June 2003. The note is collateralized by the full faith and credit of the CNMI Government held in trust by MPLT, for the purpose of development and maintenance of the American Memorial Park, and is being repaid from earnings of the investments pursuant to CNMI Public Law 11-72. 980,643

CUC:

Loan payable to CPA, net of receivable from CPA of \$1,393,810, with a remaining unreconciled difference of \$12,433. Principal of \$3,385,131, interest at 6.25% per annum, with a maturity date of October 31, 2017. Principal and interest payments are due in monthly installments of \$38,008 beginning October 31, 2007. 1,978,888

Loan payable to Pacific Marine Industrial Corporation (PMIC). Principal of \$7,470,468, interest at 9.00% per annum. Principal and interest payments are due in monthly installments of \$341,286. 7,470,468

CHCC:

Note payable to MPLT, bearing interest at 7% per annum, due over a one-year term, beginning on March 12, 2012. The note is collateralized by future distributable income in fiscal year 2014 and CHCC's real properties for CHCC's operational and bridge capital pursuant to CNMI Public Law No. 17-76. The note was paid in full on March 12, 2013. 3,000,033

Note payable to MPLT, bearing interest at 7% per annum, due over eighteen months, beginning on September 30, 2012. The note is collateralized by future distributable income in fiscal year 2014 and CHCC's real properties for CHCC's Health Information Technology/Electronic Health Records Project pursuant to CNMI Public Law No. 17-76. The note was paid in full on April 19, 2013. 328,655

\$ 19,010,125

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(10) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

Annual debt service requirements to maturity for principal and interest for notes payable outstanding as of September 30, 2012 are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 7,624,906	\$ 828,498	\$ 8,453,404
2014	4,681,964	455,679	5,137,643
2015	809,120	222,579	1,031,699
2016	848,923	180,200	1,029,123
2017	890,493	135,353	1,025,846
2018 - 2022	1,638,500	412,179	2,050,679
2023 - 2027	1,644,730	215,270	1,860,000
2028 - 2031	<u>871,489</u>	<u>573,810</u>	<u>1,445,299</u>
	\$ <u>19,010,125</u>	\$ <u>3,023,568</u>	\$ <u>22,033,693</u>

CPA \$20,050,000 Bond Issue

On March 26, 1998, CPA issued \$20,050,000 of tax-exempt airport revenue bonds which, in part, were used for a current refunding of \$8,250,000 of 1987 Series B tax-exempt airport revenue bonds. The refunding was undertaken to consolidate existing bonds with new bonds issued for the purpose of financing various airport projects and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$503,906. This amount was netted against the new debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction also resulted in an economic gain of \$688,620 and an increase of \$7,616,151 in future debt service payments.

Installments are paid to the Bond Trustee annually on March 15 through 2028. Interest is payable semi-annually, at 6.25%, on March 15 and September 15 of each year.

Revenue bonds payable as of September 30, 2012, consists of the following:

1998 Senior Series A tax-exempt airport revenue bonds \$ 13,955,000

The 1998 Senior Series A tax-exempt airport revenue bonds are limited obligations of CPA and, except to the extent payable from bond proceeds, are payable solely out of revenues, assets and funds pledged under the Indenture.

The 1998 Senior Series A tax-exempt airport revenue bonds are subject to redemption prior to their respective stated maturities on or after March 15, 2013, at the option of CPA, from any source of available funds, as a whole on any date, or in part on any interest payment date and by lot within a maturity, at the redemption prices (expressed as percentages of principal amount) set forth in the table below plus interest accrued thereon to the date fixed for redemption:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(10) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

CPA \$20,050,000 Bond Issue, Continued

<u>Redemption Dates</u>	<u>Redemption Prices</u>
March 15, 2013 through March 14, 2014	102%
March 15, 2014 through March 14, 2015	101%
March 15, 2015 and thereafter	100%

CPA \$33,775,000 Bond Issue

On March 26, 1998, CPA issued \$33,775,000 of Senior Series A tax-exempt seaport revenue bonds which, in part, were used for a current refunding of \$22,470,000 of 1995 Series A tax-exempt seaport revenue bonds. The refunding was undertaken to consolidate existing debt with new debt issued for the purpose of financing various seaport projects and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$1,345,593. This amount was netted against the new debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction also resulted in an economic gain of \$1,724,777 and a decrease of \$6,983,345 in future debt service payments.

Installments are paid to the Bond Trustee annually on March 15 through 2028. Interest is payable semi-annually, at 6.6%, on March 15 and September 15 of each year.

Revenue bonds payable as of September 30, 2012, consist of the following:

1998 Senior Series A tax-exempt seaport revenue bonds	\$ 25,170,000
Deferred difference on debt refunding	<u>(875,802)</u>
	<u>\$ 24,294,198</u>

Additionally, CPA has resolved to hold \$8,000,000 in the Seaport supplemental reserve fund. The supplemental reserve fund was established pursuant to the First Supplemental Indenture dated March 1, 2000 for the purpose of providing funding and maintenance for the 1998 Senior Series A Seaport Bonds. At September 30, 2012, total deposits in the Seaport supplemental reserve fund amounted to \$8,034,239.

The 1998 Senior Series A tax-exempt seaport revenue bonds are limited obligations of CPA and, except to the extent payable from bond proceeds, are payable solely out of revenues and funds pledged under the Indenture.

The 1998 Senior Series A tax-exempt seaport revenue bonds are subject to redemption prior to their stated maturity, at the option of CPA, as a whole or in part by lot, on any date from the proceeds of available funds, the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(10) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

CPA \$7,225,000 Bond Issue

On September 21, 2005, CPA issued \$7,225,000 of Senior Series A tax-exempt seaport revenue bonds for the purpose of financing (including reimbursing itself for) the purchase, acquisition, construction, reconstruction, repair, renovation, improvement or expansion of CPA's seaports. Pursuant to Section 2.04(A)(9) of the 1998 Senior Series A Seaport Revenue Bonds Indenture Agreement dated March 1, 1998 and as supplemented by a First Supplemental Indenture dated March 1, 2000, CPA entered into a Second Supplemental Indenture for the issuance of the 2005 Senior Series A bonds. Interest on the bonds is payable semi-annually at 5.5% on March 15 and September 15 of each year.

Revenue bonds payable as of September 30, 2012, consist of the following:

2005 Senior Series A tax-exempt seaport revenue bonds	\$ 6,395,000
Discount on bonds	<u>(90,813)</u>
	<u>\$ 6,304,187</u>

CPA Bond Issues

The bond indentures contain several restrictive covenants, including restrictions on the use of bond proceeds. Management of CPA is of the opinion that CPA was in compliance with all significant covenants as of September 30, 2012. Section 6.11 of the Airport and Seaport Bond Indenture Agreements (Indenture) states that CPA shall impose, levy, enforce and collect such dockage, entry and wharfage fees, tariffs, lease rentals, licensing fees and other fees and charges in an aggregate amount with respect to each fiscal year to produce gross revenues of 125% of debt service requirements. Management of CPA has determined that gross revenues consist of total operating revenues, other grant revenue and contributions, interest income and passenger facility charges to meet the Indenture requirements. For fiscal year 2012, management of CPA determined that 100% of passenger facility charges would be considered as gross revenues for these purposes.

Annual debt service requirements to maturity for principal and interest for bonds payable outstanding as of September 30, 2012 are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,675,000	\$ 2,831,857	\$ 4,506,857
2014	1,780,000	2,721,958	4,501,958
2015	1,895,000	2,605,060	4,500,060
2016	2,010,000	2,480,840	4,490,840
2017	2,135,000	2,348,968	4,483,968
2018 - 2022	12,895,000	9,451,842	22,346,842
2023 - 2027	17,455,000	4,657,466	22,112,466
2028 - 2031	<u>5,675,000</u>	<u>342,008</u>	<u>6,017,008</u>
	<u>\$ 45,520,000</u>	<u>\$ 27,439,999</u>	<u>\$ 72,959,999</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(10) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

Obligations Under Preferred Stock Agreement

A Memorandum of Agreement (MOA) was established between CDA and CUC on November 21, 2002, as amended in January 2004, to waive a portion of the capital development loans receivable and to provide for the conversion into equity ownership of the balance. Public Laws 13-35, 13-36 and 16-17 were enacted to effectuate the settlement of disputes between CDA and CUC as required by the MOA.

On May 7, 2009, CUC and CDA, entered into a Preferred Stock Agreement (the Agreement) to effectuate the terms and conditions of the MOA by requiring CUC to issue shares of cumulative, non-convertible and non-transferrable preferred stock of \$45,000,000 to CDA and yielding annual dividends of two percent. The Commonwealth Public Utilities Commission approved the Agreement on September 3, 2009. The Agreement provides CUC the right to purchase from CDA up to \$16,200,000 of the \$45,000,000 preferred stock through offset against CUC's future, internally-funded capital improvement projects. Subject to CUC purchase exception, CDA shall not transfer any of its rights, title or interest to such preferred stocks. Further, the Agreement provides for deferral of the dividend payments for the first three years after issuance, with such deferred dividend payments being amortized, interest free, over a fifteen-year period. Dividends are to be paid to CDA beginning October 1, 2012. The Agreement cancels and discharges the indebtedness of CUC to CDA of \$61,568,750 in principal and \$138,670,797 in accrued interest, including related late charges and any other charges owed by CUC on the capital development loans.

CUC issued to CDA forty-five shares of preferred stock with a par value of \$1,000,000 per share for a total aggregate value of \$45,000,000 dated September 28, 2009. The preferred stock yields guaranteed dividends at two percent per annum payable quarterly in advance. The dividends of the preferred stock are cumulative from and after October 1, 2009 and bear no interest.

CUC has determined that GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, does not provide a structure to allow preferred stock to be displayed within net assets. As such, CUC and CDA have taken the position that the value of the preferred stock represents the net present value of the future stream of dividend payments required by CUC and not the face value of the stock itself. CUC has treated the Agreement as a troubled debt restructuring and has recorded a long-term liability based on the discounted cash flows of the future dividend payments at 6.27% per annum. At September 30, 2012, CUC has recorded dividends payable to CDA of \$2,700,000 and CDA has recorded an investment of \$11,309,651, with a corresponding 100% valuation allowance. Future receipts for dividends are as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(10) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

Obligations Under Preferred Stock Agreement, Continued

<u>Year ending September 30,</u>	<u>Principal Balance</u>
2013	\$ 180,000
2014	180,000
2015	180,000
2016	180,000
2017	180,000
2018 - 2022	900,000
2023 - 2027	<u>900,000</u>
	<u>\$ 2,700,000</u>

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2012, are as follows:

	<u>Balance October 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2012</u>	<u>Due Within One Year</u>
Bonds payable:					
CPA	\$ 47,100,000	\$ -	\$ (1,580,000)	\$ 45,520,000	\$ 1,675,000
Notes payable:					
CPA	5,486,731	-	(235,293)	5,251,438	245,925
CUC	5,682,626	7,470,468	(3,703,738)	9,449,356	3,909,993
CDA	1,120,943	-	(140,300)	980,643	140,300
CHCC	<u>-</u>	<u>3,328,688</u>	<u>-</u>	<u>3,328,688</u>	<u>3,328,688</u>
	59,390,300	10,799,156	(5,659,331)	64,530,125	9,299,906
Deferred amounts:					
CPA:					
Deferred difference on debt refunding	(914,454)	-	38,652	(875,802)	-
Discount	<u>(95,592)</u>	<u>-</u>	<u>4,779</u>	<u>(90,813)</u>	<u>-</u>
	58,380,254	10,799,156	(5,615,900)	63,563,510	9,299,906
Other liabilities:					
Obligations under preferred stock agreement	1,800,000	900,000	-	2,700,000	-
Compensated absences	4,784,054	2,179,117	(1,896,508)	5,066,663	1,774,076
Due to Pension (and Other Employee Benefit) Trust Fund:					
CUC	3,658,869	1,409,678	(1,592,567)	3,475,980	-
PSS	20,280,840	6,268,405	(3,471,336)	23,077,909	-
Deferred revenues	<u>8,669,126</u>	<u>2,170,966</u>	<u>(570,624)</u>	<u>10,269,468</u>	<u>3,263,756</u>
	<u>\$ 97,573,143</u>	<u>\$ 23,727,322</u>	<u>\$ (13,146,935)</u>	<u>\$ 108,153,530</u>	<u>\$ 14,337,738</u>

(11) Fund Balances

Classifications of fund balances comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following table enumerates the fund balance classifications:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(11) Fund Balances, Continued

	<u>General</u>	<u>Grants Assistance</u>	<u>Department of Public Lands</u>	<u>Private Grants</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Non-spendable						
Inventories	\$ 232,387	\$ -	\$ -	\$ -	\$ -	\$ 232,387
United Micronesia Development Association	1,500,000	-	-	-	-	1,500,000
Pacific Islands Development Bank	1,000,000	-	-	-	-	1,000,000
Restricted for						
Capital projects	2,257,765	5,025,097	-	-	1,358,403	8,641,265
Public lands	-	-	5,134,410	-	-	5,134,410
Other purposes	-	-	-	-	6,243,609	6,243,609
Unassigned	<u>(78,286,141)</u>	<u>(91,005)</u>	<u>-</u>	<u>(172,971)</u>	<u>(665,396)</u>	<u>(79,215,513)</u>
	<u>\$ (73,295,989)</u>	<u>\$ 4,934,092</u>	<u>\$ 5,134,410</u>	<u>\$ (172,971)</u>	<u>\$ 6,936,616</u>	<u>\$ (56,463,842)</u>

(12) Transfers In/Out

Operating Fund Transfers

Operating transfers in/out for each major governmental fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2012, are as follows:

<u>Source/Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
<u>General Fund</u>		
From General Fund to:		
Grants Assistance Fund	\$ 3,262,757	\$ -
To General Fund from:		
Grants Assistance Fund	-	1,261,921
Nonmajor governmental funds	-	<u>3,696,581</u>
	<u>3,262,757</u>	<u>4,958,502</u>
<u>Grants Assistance Fund</u>		
From Grants Assistance Fund to:		
General Fund	1,261,921	-
To Grants Assistance Fund from:		
General Fund	-	3,262,757
Nonmajor governmental funds	-	<u>57,830</u>
	<u>1,261,921</u>	<u>3,320,587</u>
<u>Department of Public Lands</u>		
From Department of Public Lands to:		
Nonmajor governmental funds	<u>416,582</u>	-
<u>Nonmajor governmental funds</u>		
From nonmajor governmental funds to:		
General Fund	3,696,581	-
Grants Assistance Fund	57,830	-
To nonmajor governmental funds from:		
Department of Public Lands	-	<u>416,582</u>
	<u>3,754,411</u>	<u>416,582</u>
	<u>\$ 8,695,671</u>	<u>\$ 8,695,671</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(12) Transfers In/Out, Continued

Operating Fund Transfers, Continued

Transfers are used to 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) record reductions in interfund loans for amounts that are not expected to be repaid.

The amount recorded as payments to component units from the primary government of \$55,038,453 does not equal the corresponding contributions from the primary government of \$39,612,989 by \$10,249,050. The difference of \$3,037,292 with NMC is due to \$1,972,826 Compact Impact and American Recovery and Reinvestment Act (ARRA) of 2009 funds recorded by NMC as grants and contribution revenues while the CNMI recorded the amount as payments to NMC and \$1,064,644 due to timing differences in recording payments. The difference of \$5,838,677 with PSS is due to \$5,788,678 ARRA funds recorded by PSS as grants and contribution revenues while the CNMI recorded the amount as payment to PSS. The difference of \$1,200,000 with MVA is due to timing differences.

The amount recorded as contributions from component units of the primary government of \$2,425,514 does not equal the corresponding contributions to the primary government of the component units of \$2,710,537 due to \$532,228 recorded as contributions to the primary government by MPLT relating to the repayment of MPLT's loans receivable from CDA, \$247,205 recorded as contributions to the primary government by CUC relating to the 1% OPA fees which have not been paid by CUC.

(13) Commitments

Land Acquisitions

The CNMI has acquired certain properties from landowners for right-of-way or easement projects. The CNMI government's liability for future reimbursement costs associated with unknown land acquisitions is presently not determinable.

Dedicated Revenues and Pledges

CNMI has pledged all Judicial Building Fund (a Governmental Fund Type - Special Revenue Fund) revenues to repay a loan of \$15,000,000 to NMIRF pursuant to an agreement entered into in February 1995. Total principal and interest remaining on this loan is approximately \$5,707,338 payable through September 2015. For the year ended September 30, 2012, principal and interest paid were \$177,878 and \$456,560, respectively, and total Judicial Building Fund revenues were \$863,913.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(13) Commitments, Continued

Discretely Presented Component Units

CPA has pledged future gross revenues to repay \$20,050,000 and \$33,775,000 in 1998 Senior Series A and \$7,225,000 of 2005 Senior Series A tax-exempt special revenue bonds. Proceeds from the bonds provided financing for capital assets. The bonds are payable from pledged gross revenues. The bonds are payable through fiscal years 2028, 2028 and 2031, respectively. The total principal and interest payable for the remainder of the life of these bonds are \$72,959,999 at September 30, 2012. Pledged gross revenues received during the year ended September 30, 2012 were \$18,416,201. Debt service payments during the year ended September 30, 2012 amounted to \$4,515,371 representing 25% of pledged gross revenues.

Operating Lease

On August 18, 2003, NMC entered into an assignment of lease with a corporation (Assignor), whereby the Assignor assigns leases and leasehold estate and other rights on the La Fiesta property to NMC for a total payment of \$4,000,000 payable in annual installments of \$200,000 beginning October 29, 2004. On September 15, 2004, NMC and the CNMI entered into a Memorandum of Agreement for the transfer of the lease assignment. On January 7, 2005, NMC and the CNMI executed an Assignment of Contract Rights whereby NMC assigns and transfers to the CNMI all right, titles and interest to the assignment of leases dated August 18, 2003. Rental expense for this lease for the fiscal year ended September 30, 2012, is \$200,000.

CNMI's future rentals under the lease as of September 30, 2012, are as follows:

<u>September 30,</u>	
2013	\$ 200,000
2014	200,000
2015	200,000
2016	200,000
2017	200,000
2018 - 2022	1,000,000
2023 - 2025	<u>600,000</u>
	\$ <u>2,600,000</u>

(14) Contingencies

Landfill Closure Costs

The CNMI operates a solid waste disposal site in Puerto Rico, Saipan, which is under administrative order from the U.S. Environmental Protection Agency to close in the near future. The disposal site was officially closed in 2003. The related costs will be funded through grant awards from the U.S. Department of the Interior.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(14) Contingencies, Continued

Landfill Closure Costs, Continued

State and federal laws and regulations require the CNMI to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although landfill closure and postclosure costs will be paid only near or after the date that the Marpi landfill stops accepting waste, the CNMI's governmental activities reports a portion of these closure and postclosure costs as an expense in each period based on landfill capacity used as of each balance sheet date. The \$3,817,368 liability reported as landfill closure and postclosure costs at September 30, 2012 within the accompanying financial statements, represents the cumulative amount reported based on 55% capacity used. The Marpi landfill has an estimated lifespan of eighteen years. The CNMI will recognize the remaining estimated cost of closure and post closure care of \$3,053,894 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care in 2012. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

Questioned Costs Under Federally Funded Programs

The CNMI participates in a number of federally assisted grant programs funded by the United States Government. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$35,559,217 have been set forth in the CNMI's Single Audit Report for the year ended September 30, 2012. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Insurance Coverage

The CNMI does not maintain insurance coverage for a significant amount of fixed assets. In the event of a catastrophe, the CNMI may be self-insured to a material extent. The CNMI, however, maintains fidelity bonding insurance coverage over employees with access to cash. In the event of a loss through employee malfeasance, the CNMI will be self-insured for losses in excess of \$1,000,000.

Unfunded Pension Liability

Pursuant to Public Law No. 6-17, the CNMI is to make contributions to the Northern Mariana Islands Retirement Fund (NMIRF) each year on an actuarially funded basis toward the annuities related to retirement and other benefits. These contributions are to equal the sum of normal cost determined under an acceptable actuarial funding method, allowance for expenses, interest on any due but unpaid obligations, plus an amount sufficient to amortize the initial unfunded liability and unfunded accrued liability for Class I and Class II members respectively, as a level percentage of total payroll over specified period, determined by the Board upon recommendation of the actuary, but not to exceed a period of forty years from October 1, 1980.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(14) Contingencies, Continued

Unfunded Pension Liability, Continued

The unfunded pension liability is the amount of contributions that the CNMI should have paid to the NMIRF for the retirement benefits of an undetermined number of individuals employed before October 1, 1980, the date the Fund was established, who collected money from the Fund based on their years of service but were not required to pay their share of contribution as mandated by this law. Based on the latest actuarial valuation report, dated October 1, 2010, the actual unfunded pension liability is \$622,602,189.

General Fund Financial Position

The CNMI's General Fund has sustained recurring operating deficits and has an unassigned fund deficit of \$78,286,141 at September 30, 2012. In addition, at September 30, 2012, the primary government's current liabilities exceed current assets by \$70,565,391, and total liabilities exceed total assets by \$225,050,728. Subsequent to September 30, 2012, the United States District Court for the Northern Mariana Islands approved a Settlement Agreement between a retiree (individually and on behalf of similarly-situated persons) and the CNMI, NMIRF and others. The Settlement Agreement includes the creation of a Settlement Fund to accept the transfer of NMIRF assets, receive annual contributions and payments by the CNMI and to carry out the consent judgment entered by the District Court. As part of the Settlement Agreement, the CNMI agrees to make minimum annual payments to the Settlement Fund to allow for the payment of 75% of Class Members' full benefits annually during the Settlement Fund's expected life and as determined by an actuary appointed by a Trustee and approved by the District Court. The CNMI is awaiting the actuarial determination and the effect on the accompanying financial statements has not been determined.

Management believes that the actuarial determination will have a positive effect on the General Fund Financial Position and will commence the process of reducing the abovementioned General Fund deficit position.

NMIRF Loan

At September 30, 2012, the CNMI was in arrears \$1,966,723 with its loan payable to NMIRF.

Other

The CNMI records expenditures for sick leave when the leave is actually taken. Sick leave is compensated absence during working hours arising from employee illness or injury. Sick leave accumulates at the rate of thirteen working days for each year of service, without limit. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated estimated amount of unused sick leave as of September 30, 2012, is \$38,050,716.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(14) Contingencies, Continued

Other, Continued

As of September 30, 2012, the CNMI Group Health and Insurance Trust Fund (GHLITF) has a net deficit of \$16,379,207. In addition, GHLITF submitted unprocessed claims from service providers with service dates as of September 30, 2012 and earlier that totaled \$35.3 million. These claims include claims from the Commonwealth Health Center (CHC), Rota Health Center (RHC) and Tinian Health Center which are part of the General Fund. The ultimate liability that will result from these claims has not been determined by GHLITF; as such these claims have not been recorded as of September 30, 2012. Under Public Law No. 10-19, liabilities of the GHLITF shall be liabilities of the primary government, and unless GHLITF becomes profitable, the General Fund could be liable for the amount in excess of the claims from the CHC, RHC and THC. The related CHC, RHC and THC receivables from the GHLITF recorded by the General Fund are fully reserved for as of September 30, 2012. The outcome of this matter is presently not determinable; therefore, no provision has been made in the accompanying financial statements. With the privatization of the health benefit plan in November 1, 2007, the CNMI will not be liable for medical claims accruing after privatization. The CNMI is only liable for its share of medical premiums.

(15) Risk Management

The CNMI is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, CNMI management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the CNMI reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Total claims amounted to \$714,603, \$798,193 and \$4,897,108 for the years ended September 30, 2012, 2011 and 2010, respectively. Changes in the balance of claims liabilities during the past year are as follows:

	<u>Year ended September 30,</u>
Unpaid claims at beginning of year	\$ 31,889,164
Incurred claims	702,543
Claim payments	<u>(714,603)</u>
Unpaid claims at end of year	\$ <u>31,877,104</u>

(16) Pension and Other Postemployment Benefits Trust Fund

The CNMI contributes to NMIRF's defined benefit plan (DB Plan) and defined contribution plan (DC Plan), a cost sharing, and multi-employer plan (the Plan) established and administered by the CNMI.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(16) Pension and Other Postemployment Benefits Trust Fund, Continued

NMIRF issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to NMIRF, P.O. Box 501247, Saipan, MP, 96950-1247.

GASB Statement No. 45 requires employers to record other postemployment benefits (OPEB) expense for their contractually required contributions to the OPEB plan. The CNMI has complied with GASB 45 by recording OPEB expense based on the statutory determined contribution rate of NMIRF. The CNMI's OPEB liability is incorporated into the Due to Pension (and Other Employee Benefit) Trust Fund liability amount. It is the understanding of the management of the CNMI that the statutory determined contribution rate of NMIRF incorporates both the pension liability and the OPEB liability. GASB 45 also requires detailed disclosure of information related to the OPEB plan and CNMI management was unable to obtain this information from the NMIRF financial report. CNMI management is unable to obtain the required disclosures and is of the opinion that such information must be obtained from NMIRF. It is the position of the management of the CNMI that NMIRF is solely responsible for disclosure of OPEB information.

Defined Benefit Plan (DB Plan)

The DB Plan provides retirement, disability, security and other benefits to employees of the CNMI Government and CNMI agencies, instrumentalities and public corporations and their spouses and dependents. Benefits are based on the average annual salary of the beneficiary over the term of credited service. Public Law No. 6-17, the Northern Mariana Islands Retirement Fund Act of 1988, is the authority under which benefit provisions are established. Public Law No. 6-17 was subsequently amended by Public Law Nos. 6-41, 8-24, 8-30, 8-31, 8-39, 9-25, 9-45, 10-8, 10-19, 11-9, 11-95, 13-60, 15-14, 15-70, 15-126, 16-2 and 16-36.

DB Plan members are required to contribute 6.5% and 9% of their annual covered salary for Class I and Class II members, respectively. On June 14, 2007, Public Law No. 15-70 was enacted to amend the NMIRF Act to improve the DB Plan's fiscal solvency. Public Law No. 15-70 provides for increasing employee contributions to the DB Plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. The actuarial contribution rate for fiscal year ended September 30, 2012 has yet to be determined. The actuarially determined contribution rate for the fiscal year ended September 30, 2009 is 60.8686% of covered payroll based on an actuarial valuation as of October 1, 2009 issued in May 2011. The established statutory rate at September 30, 2012 is 37.3909% of covered payroll. Public Law No. 15-126, authorizes the CNMI Government to remit only 18% of covered payroll and accrue the remaining as liability to NMIRF for fiscal year 2009. The employer contribution remittance was further reduced by Public Law No. 16-2 to 11% of covered payroll. On June 29, 2009, the CNMI was ordered to pay employer contribution of 16% beginning August 2009. Effective November 2009, the employer contribution was increased to 20%. On November 10, 2010, the CNMI was ordered to remit the employer contribution rate of 30% effective October 1, 2010.

The CNMI's recorded DB contributions to NMIRF for the years ended September 30, 2012, 2011 and 2010 were \$6,892,314, \$3,372,795 and \$9,972,999, respectively, equal to the required statutory contributions for each year.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(16) Pension and Other Postemployment Benefits Trust Fund, Continued

Defined Benefit Plan (DB Plan), Continued

On August 30, 2012, Public Law 17-79 was enacted to amend Title I of the Commonwealth Code to include the intent of the CNMI to participate in the retirement insurance system established by Title II of the U.S. Federal Insurance Contributions Act (FICA) and for participation to be extended to elected officials, employees, political subdivisions and instrumentalities of the CNMI. Authorization of participation has not been obtained from the U.S. Government. On September 11, 2012, Public Law 17-82 *CNMI Pension Reform Recovery Act of 2012* was enacted. Unless specifically exempted or authorized by federal law, Public Law 17-82 provides for mandatory membership of CNMI Government employees and elected officials in the U.S. Social Security system and authorizes employees, who elect to, to buy quarters of service in the U.S. Social Security system from contributions made to the DB plan. In addition, Public Law 17-82 provides active and inactive DB Plan members the option to voluntarily terminate membership in the DB Plan, withdraw or roll over contributions to the DC Plan and to participate in the U.S. Social Security system without termination of employment or penalty. Further, Public Law 17-82 allows the CNMI Government to continue remitting its 4% employer contribution to the DC Plan unless the employee ceases to contribute its employee share.

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. The CNMI is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. The CNMI's recorded DC contributions for the years ended September 30, 2012, 2011 and 2010 were \$911,304, \$920,866 and \$987,936, respectively, equal to the required contributions for each year.

Members of the DC Plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

The contribution requirements of plan members and the CNMI are established and may be amended by the Board of Trustees of NMIRF.

Pursuant to Public Law No. 6-41, codified in 1CMC § 8362, any employer who fails to pay or remit contributions as required by this section shall pay a penalty of 10% per month or part thereof for which the contribution remains unpaid, up to a maximum penalty of 25% of the unpaid contribution. At September 30, 2012, NMIRF assessed accumulated penalties of \$52,409,701. The CNMI has recorded a liability of \$52,409,701 at September 30, 2012.

All component units of the CNMI government reporting entity also contribute to the Plan. Separate actuarial valuations have not been performed for these separate component units.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(17) Restatement

Subsequent to the issuance of the CNMI's 2011 basic financial statements, it was determined that other liabilities and accruals and claims and judgments payable of the governmental activities/governmental funds were overstated by \$3,550,632. The overstatement related to the Department of Public Lands governmental fund. As a result of this determination, these account balances have been restated from the amounts previously reported as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Governmental activities:		
At September 30:		
Current liabilities:		
Other liabilities and accruals	\$ <u>9,633,627</u>	\$ <u>8,205,472</u>
Claims and judgments payable	\$ <u>31,889,164</u>	\$ <u>29,766,687</u>
Net assets:		
Unrestricted	\$ <u>(353,368,618)</u>	\$ <u>(349,817,986)</u>
Year ended September 30:		
Beginning net assets	\$ <u>(220,212,304)</u>	\$ <u>(216,661,672)</u>
Ending net assets	\$ <u>(238,902,743)</u>	\$ <u>(235,352,111)</u>
Governmental funds:		
At September 30:		
Liabilities:		
Other liabilities and accruals	\$ <u>9,633,627</u>	\$ <u>8,205,472</u>
Claims and judgments payable	\$ <u>31,889,164</u>	\$ <u>29,766,687</u>
Fund balances:		
Restricted	\$ <u>15,698,396</u>	\$ <u>19,249,028</u>
Year ended September 30:		
Beginning fund balance	\$ <u>(305,582,875)</u>	\$ <u>(302,032,243)</u>
Ending fund balance	\$ <u>(332,889,304)</u>	\$ <u>(329,338,672)</u>

Government-Wide Level

Discretely Presented Component Units

Net assets, as previously reported September 30, 2011	\$ <u>450,764,913</u>
Understatement of net assets reported in 2011:	
Northern Marianas College	52,259
Overstatement of net assets reported in 2011:	
Commonwealth Ports Authority	(1,398,186)
Public School System	<u>(10,943,785)</u>
	<u>(12,289,712)</u>
Net assets, as restated September 30, 2011	\$ <u>438,475,201</u>

(18) Subsequent Events

On November 9, 2012, Public Law 17-88 was enacted to transfer the administrative functions of the Worker's Compensation Law from NMIRF to the CNMI's Department of Commerce (DOC). The Legislature finds that DOC is an appropriate government entity to administer these functions due to its status as a permitting and enforcement agency, to ensure compliance with the Worker's Compensation law and to facilitate the implementation of "one-stop business processing" procedures.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2012

(18) Subsequent Events, Continued

In November 2012, NMIRF sought guidance from the federal court relating to the legality of certain provisions authorized by Public Law 17-82. As a result, the distribution of employee contributions of DB Plan members who elected to terminate their membership and withdraw their contributions was ceased pending the federal court's guidance. As part of a Settlement Agreement discussed below, distribution of employee contributions resumed in August 2013.

On August 7, 2013, the United States District Court for the Northern Mariana Islands issued an order for the preliminary approval of Civil Case No. 09-00023, Class Action Settlement (the Settlement), between a retiree (individually and on behalf of similarly-situated persons) and the CNMI, NMIRF and others. The Settlement includes the creation of a Settlement Fund to accept the transfer of NMIRF assets, receive annual contributions and payments by the CNMI and to carry out the consent judgment entered by the District Court.

As part of the Settlement, the CNMI agrees to make minimum annual payments to the Settlement Fund to allow for the payment of 75% of Class Members' full benefits annually during the Settlement Fund's expected life and as determined by an independent actuary appointed by the Trustee and approved by the District Court. In addition, the Settlement authorizes NMIRF to distribute employee contributions (exclusive of interest) of \$10,000,000 to former members of the DB Plan who elected to terminate their membership in accordance with Public Law 17-82 with the remainder to be distributed upon final approval of the Settlement Agreement. On September 30, 2013, the United States District Court for the Northern Mariana Islands approved the Settlement Agreement.

As a result of the Settlement Agreement, the nature of the \$267,089,307 judgment against the CNMI in the Civil Case No. 06-0367 has changed in that the total amount is not due within a year. Accordingly, this amount was recorded as an extraordinary item of the General Fund within the accompanying financial statements. The amount of the judgment is factored into the annual payments disclosed in note 10.

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION
- BUDGETARY REPORTING

YEAR ENDED SEPTEMBER 30, 2012

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Revenues, Expenditures, and Changes in Deficit
- Budget and Actual - General Fund
Year Ended September 30, 2012

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance
	Original	Final		
Revenues:				
Taxes	\$ 108,200,000	\$ 108,200,000	\$ 121,249,627	\$ 13,049,627
Charges for sales and services	2,450,000	2,450,000	1,412,163	(1,037,837)
Licenses and fees	7,420,000	7,420,000	6,832,480	(587,520)
Contributions from component units	2,779,650	2,779,650	2,223,634	(556,016)
Other	1,009,000	1,009,000	1,815,385	806,385
Total revenues	121,858,650	121,858,650	133,533,289	11,674,639
Expenditures - budgetary basis by function:				
Executive branch	31,327,532	32,954,481	30,253,048	2,701,433
Second Senatorial District - Tinian	4,592,730	4,577,377	4,572,048	5,329
First Senatorial District - Rota	4,539,751	4,518,450	4,515,248	3,202
Government utilities	4,202,765	4,567,626	8,125,836	(3,558,210)
Legislative branch	5,403,619	5,403,620	5,146,599	257,021
Judicial branch	3,939,014	3,939,014	3,865,285	73,729
Independent programs	2,511,414	688,324	1,247,922	(559,598)
Third Senatorial District - Saipan	1,432,485	1,422,651	1,369,077	53,574
Office of the Public Auditor	2,164,700	2,164,704	1,495,698	669,006
Boards and commissions	476,773	476,773	450,089	26,684
Education (payment to Public School System, Northern Marianas College and Board of Education)	34,432,618	34,432,616	34,982,616	(550,000)
Tourism (payment to Marianas Visitors Authority)	5,939,336	5,939,336	7,444,838	(1,505,502)
Employee benefits (payment to Pension (and Other Employee Benefit) Trust Fund)	4,278,981	4,278,981	1,955,592	2,323,389
Health (payment to CHCC)	4,640,816	4,640,816	5,181,479	(540,663)
Public Law 17-7 (Marianas Public Land Trust funds diverted to Commonwealth Utilities Corporation)	1,300,000	1,300,000	-	1,300,000
Judgments	9,425	9,425	-	9,425
Debt service	8,429,000	8,429,000	8,530,534	(101,534)
Disaster expenditures	-	-	300	(300)
Miscellaneous/continuing appropriations	-	-	2,712,887	(2,712,887)
Unallocated	122,235	-	2,400	(2,400)
Total expenditures	119,743,194	119,743,194	121,851,496	(2,108,302)
Excess of revenues over expenditures	2,115,456	2,115,456	11,681,793	9,566,337
Other financing sources (uses):				
Operating transfers in	300,000	300,000	416,581	116,581
Operating transfers out	(5,115,000)	(5,115,000)	-	5,115,000
Total other financing sources (uses), net	(4,815,000)	(4,815,000)	416,581	5,231,581
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(2,699,544)	(2,699,544)	12,098,374	14,797,918
Other changes in deficit:				
Decrease in non-spendable inventories	-	-	1,044,287	1,044,287
Decrease in restricted assets	-	-	(11,596,212)	(11,596,212)
Deficit at beginning of year	(189,874,849)	(189,874,849)	(202,303,781)	(12,428,932)
Deficit at end of year	\$ (192,574,393)	\$ (192,574,393)	\$ (200,757,332) *	\$ (8,182,939)

* See note 2.

See Accompanying Notes to Required Supplementary Information - Budgetary Reporting.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting September 30, 2012

(1) Budgetary Information

Under Public Law No. 3-68, as amended by Public Law No. 3-93, the Governor submits a proposed budget to the CNMI Legislature by April 1 for the fiscal year commencing the following October 1. By July 1, the CNMI Legislature sets limits on expenditures by House Concurrent Resolution (a resolution originating in the House of Representatives which is passed by both the House and Senate). By September 1, the budget is legally enacted by the CNMI Legislature through passage of Annual Appropriation Acts. If a balanced budget is not approved before the first day of the fiscal year, appropriations for government operations and obligations shall be at the same level for the previous fiscal year. Budgetary control is maintained at the department level. To the extent not expended or encumbered, General Fund appropriations generally lapse at the end of the fiscal year for which appropriations were made.

Accounting principles used in developing data on a budgetary basis differ from those used in preparing the basic financial statements in conformity with GAAP. Amounts included on the Statement of Revenues, Expenditures and Changes in Deficit - Budget and Actual - General Fund (which are presented on a non-GAAP budgetary basis) are reconciled to unassigned deficit of the Governmental Fund Balance Sheet within the other changes in unassigned deficit section of that statement.

Encumbrance accounting is employed in governmental funds. For budgetary purposes, encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent fiscal year.

On September 26, 2011, the CNMI passed Public Law 17-55 as the Appropriations and Budget Authority Act of 2012. The Act allocates local funds for the operations and activities of the Government of the CNMI, its agencies, its instrumentalities, independent agencies and political subdivisions and provides authority for government corporations for Fiscal Year 2012 commencing October 1, 2011 and ending September 30, 2012. On June 4, 2012, Public Law 17-74 was enacted to amend Section 710 of Public Law 17-55 which transferred \$5,000,000 originally appropriated to the Department of Public Health to CHCC for Medicaid reimbursements.

Expenditures may not legally exceed budgeted appropriations at the program area level. Certain activity levels within the General Fund have over expended budgeted appropriations; however, the effect of such over expenditures, if any, is presently not determinable.

For the year ended September 30, 2012, expenditures of the General Fund exceeded budget at the program area level (i.e., the legal level of budgetary control) as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2012

(1) Budgetary Information, Continued

<u>Program Area</u>	<u>Excess</u>
Government Utilities	\$ 3,558,210
Independent Programs:	
Coastal Resources Management	\$ 6,145
La Fiesta Lease	\$ 210,911
Humanities Council	\$ 25,149
Ayuda Network	\$ 15,266
Disability Dev PL 10-4	\$ 193,492
Flame Tree Festival	\$ 214,182
National Governors Association	\$ 465
Tourism	\$ 1,505,502
Health	\$ 540,663
Education	\$ 550,000
Debt Service	\$ 101,534
Disaster Expenditures	\$ 300
Miscellaneous/Continuing Appropriations	\$ 2,712,887
Unallocated Adjustments	\$ 2,400

(2) Explanation of Differences

CNMI Public Law 15-15 authorized the suspension of government obligations owing to the Northern Mariana Islands Retirement Fund (NMIRF) for parts of fiscal year 2006 and all of fiscal year 2007. The CNMI budgeted for this deferred retirement contribution on the cash basis rather than the modified accrual basis. At September 30, 2012, the accumulated deferred retirement contribution is \$47,035,810.

During the fiscal year ended September 30, 2012, the established statutory rate for employer retirement contributions for employees under the defined benefit plan is 37.3909% of covered payroll. Public Laws 16-32 and 16-2 authorized the CNMI Government to remit employer retirement contributions at 11% of covered payroll and accrue the remaining as a liability to NMIRF. Pursuant to a court order, the employer retirement contribution rate was increased to 20%, effective November 2009. The CNMI budgeted for employer retirement contributions on the cash basis rather than the modified accrual basis. The accumulated difference between the statutory rate and applicable contribution rate amounted to \$39,221,407.

Pursuant to Public Law 6-41, any employer who fails to pay or remit contributions shall pay a penalty of 10% per month or part thereof for which the contributions remains unpaid, up to a maximum penalty of 25% of the unpaid contributions. As of September 30, 2012, the accumulated penalty in retirement contributions amounted to \$33,018,641. Of this amount, \$5,906,180 relates to fiscal year 2012.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2012

(2) Explanation of Differences, Continued

On June 24, 2008, the Office of the Governor confirmed that the CNMI will be responsible for the Northern Marianas College's (NMC) deficient retirement contributions from October 1, 2005 through September 30, 2007 totaling \$2,514,213. This amount was not budgeted under Public Law 15-28, as amended by Public Law 15-71. Further, Public Laws 16-32 and 16-2 mandated the CNMI Government to accrue as a liability the difference between the statutory rate and contribution rate of 11% in employer retirement contribution, including statutory penalties, of the NMC. Pursuant to a court order, the employer retirement contribution rate was increased to 20%, effective November 2009. The accumulated difference between the statutory rate and applicable contribution rate amounted to \$7,479,253. Of this amount, \$1,133,602 relates to fiscal year 2012.

Public Law 16-10 appropriated funds from the PSS CIP GO Bond and any fund balance available at the closure of the indenture trust agreement to fund major classroom repairs and renovations projects at the public schools. For the fiscal year ended September 30, 2012, the CNMI transferred to PSS remaining funds from the PSS CIP GO Bonds amounting to \$496,464. Funding to these payments was derived from bond issuances obtained in prior years, which had been restricted against unassigned deficit.

As of September 30, 2012, the accumulated land compensation payments made by the CNMI amounted to \$109,076. Funding to these payments was derived from bond issuances obtained in prior years, which had been restricted within unassigned deficit. As related budgetary basis revenues were not reflected for the year ended September 30, 2012, the CNMI had netted payments with the decrease in the reserve for land claims in the schedule of revenues, expenditures and changes in deficit-budget and actual-general fund.

The CNMI recognizes bad debts (recovery) based on identification of receivables. The CNMI budget does not reflect bad debts on the modified accrual basis. As of September 30, 2012, the accumulated bad debts amounted to \$6,127,132. Of this amount, \$(582,613) relates to fiscal year 2012.

The CNMI recognizes claims and judgment expenditures when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The CNMI budget does not reflect claims and judgment expenditures on the modified accrual basis. As of September 30, 2012, the accumulated claims and judgments expenditures accrued is \$32,448,253. Of this amount, \$3,073,579 relates to fiscal year 2012.

The amount reported as operating transfers in of \$4,958,502 under GAAP basis does not equal the amount reported as operating transfers in of \$416,581 under budgetary basis by \$4,541,921 due to: (a) \$1,261,921 in Compact impact funds; and (b) \$3,280,000 of transfers pursuant to Public Law 17-6 reported as operating transfers in the governmental fund financial statements but were reported as a reduction of expenditures for budgetary purposes.

The amount reported as operating transfers out of \$3,262,757 under GAAP basis does not equal the amount reported as operating transfers out of \$-0- under budgetary basis due to \$3,262,757 in federal grants local match reported as transfers out in the governmental fund financial statements but were reported as expenditures for budgetary purposes.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2012

(2) Explanation of Differences, Continued

The following reconciles budget to GAAP differences:

	<u>October 1, 2011</u>	<u>September 30, 2012</u>
Deficit, budgetary basis	\$ 202,303,781	\$ 200,757,332
Deferred retirement contributions per Public Law 15-15	47,035,810	47,035,810
Deficiency in retirement contributions per Public Law 16-2	39,221,407	39,221,407
Penalty in retirement contributions per Public Law 6-41	27,112,461	33,018,641
NMC retirement contributions	6,345,651	7,479,253
Payments to PSS, offset against decrease in restricted assets	1,708,269	1,708,269
Restricted assets	(1,708,269)	(1,708,269)
Payments to PSS from the liquidated PSS investment accounts	496,464	496,464
Payments to DPL, offset against decrease in restricted for land claims	109,076	109,076
Restricted for land claims	(109,076)	(109,076)
Accumulated bad debts	6,709,745	6,127,132
Claims and judgments	29,374,674	32,448,253
Retirement Fund obligations under Settlement Agreement	-	(267,089,307)
GASB 54 Funds included within the General Fund	1,183,152	986,095
Encumbrances not recognized under GAAP basis	(2,699,560)	(1,943,643)
Other	<u>(12,788,092)</u>	<u>(25,241,448)</u>
Deficit, GAAP basis	<u>\$ 344,295,493</u>	<u>\$ 73,295,989</u>

The amount reported as “deficit” on the budgetary basis of accounting derives from the basis of accounting used in preparing the CNMI’s budget. This amount differs from the deficit reported in the balance sheet-governmental funds and the statement of revenues, expenditures and changes in deficit because of the effect of the above transaction.

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2012

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2012

	General	Grants Assistance	Department of Public Lands	Private Grants	Other Governmental Funds	Total
Salaries and wages	\$ 31,344,351	\$ 10,785,878	\$ 1,197,839	\$ 102,890	\$ 687,464	\$ 44,118,422
Professional services	4,400,500	29,929,392	124,754	111,506	1,789,722	36,355,874
Food items	292,021	15,193,150	-	562,709	6,141	16,054,021
Employee benefits	9,556,976	2,388,362	327,523	31,763	188,029	12,492,653
Capital outlay:						
Road improvements	-	232,896	-	-	4,645,912	4,878,808
Vehicles	46,934	1,371,365	-	-	132,075	1,550,374
Machinery and equipment	20,284	1,297,792	-	5,220	15,451	1,338,747
Office equipment	196,012	702,353	-	349	9,427	908,141
Furniture and fixtures	50,058	560,876	-	450	21,564	632,948
Building improvements	45,593	458,002	-	-	-	503,595
Construction in progress	-	2,814,901	-	-	454,257	3,269,158
Other	493,870	517,972	48,387	-	30,996	1,091,225
Utilities	8,951,308	556,930	73,575	-	1,560	9,583,373
Scholarships/grants	1,108,073	753,985	-	-	1,983,429	3,845,487
Interest	5,111,228	-	-	-	456,560	5,567,788
Travel	1,727,177	2,665,710	114,761	27,240	179,046	4,713,934
Principal repayment	3,430,000	-	-	-	177,878	3,607,878
Education:						
Payments to Public School System	29,669,461	6,105,627	-	-	-	35,775,088
Payments to Northern Marianas College	3,950,390	1,972,826	-	-	-	5,923,216
Payments to Commonwealth Healthcare Corporation	4,462,933	-	-	-	-	4,462,933
Payments to Marianas Visitors Authority	7,444,838	-	-	-	-	7,444,838
Payments to Pension (and Other Employee and Benefit) Trust Fund	2,444,170	-	-	-	-	2,444,170
Claims and judgments	3,073,579	-	-	-	26,186	3,099,765
Rentals	1,649,013	633,408	138,319	68,526	735,856	3,225,122
Supplies	781,569	2,151,314	24,060	18,119	75,189	3,050,251
Repairs and maintenance	861,397	1,586,633	16,631	20,126	204,530	2,689,317
Fuel and lubrication	986,135	470,489	24,623	20,793	141,730	1,643,770
Communications	756,811	659,166	16,048	3,808	37,895	1,473,728
Indirect costs	-	916,499	-	-	-	916,499
Advertising	13,369	611,768	10,562	10,210	5,240	651,149
Printing	79,583	259,124	-	2,869	11,986	353,562
Insurance	12,656	222,646	8,571	-	-	243,873
Miscellaneous services	84,490	108,920	-	7,950	558	201,918
Dues and subscriptions	115,008	37,460	-	690	948	154,106
Freight	51,282	65,432	-	6,186	6,542	129,442
Books and library materials	26,593	94,340	-	-	943	121,876
Official representation	113,544	-	-	-	2,913	116,457
Licenses and fees	6,536	7,874	-	-	-	14,410
(Recovery) bad debts	(582,613)	-	690,898	-	-	108,285
Penalty on retirement contributions	5,906,180	-	-	-	-	5,906,180
Other	2,637,528	2,018,298	117,380	3,602	62,719	4,839,527
	<u>\$ 131,318,837</u>	<u>\$ 88,151,388</u>	<u>\$ 2,933,931</u>	<u>\$ 1,005,006</u>	<u>\$ 12,092,746</u>	<u>\$ 235,501,908</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
MAJOR GOVERNMENTAL FUND - GENERAL FUND

September 30, 2012

The General Fund is the CNMI's primary operating fund and is used to account for all financial transactions not accounted for in any other fund.

NMTIT Rebate Trust

This fund was established to account for at least 75% of amounts paid to the CNMI with respect to taxes. Amounts may be withdrawn from the trust fund only for the purpose of making rebates, payments into the General Fund (but only after a final determination that the amount in question is not validly subject to rebate), or payments into the General Fund of interest derived from the trust accounts.

Commonwealth Museum Fund

This fund was established pursuant to Public Law No. 10-5. This fund accounts for all funds received from legislative appropriations for the activities and operations of the Museum; fees generated by the Museum and all gifts, loans or other funds designated for any and all operations and activities of the Museum.

Human Resources Development Trust Fund

This fund was established pursuant to Public Law No. 5-3 to account for all revenues raised from the licensing of amusement machines. Public Law No. 5-3 was subsequently amended by Public Law No. 10-41, which required that funds collected under Public Law No. 5-3 to be transferred into the General Fund for general appropriation.

Micronesian Garment Manufacturing Fund

This fund accounts for settlement claims on behalf of certain garment workers.

Governor's Education Initiative Fund

This fund was established by Executive Order No. 232, *Establishment of Governor's Education Initiative Fund and Related Programs*. The fund accounts for specific education programs appropriated by the Governor.

Debt Service Fund

This fund accounts for the accumulation of resources, principally transfers from the General Fund for the payment of long-term debt principal and interest.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
MAJOR GOVERNMENTAL FUND - GENERAL FUND

September 30, 2012

Miscellaneous General Fund

The miscellaneous general fund combines the following:

- San Antonio Park Fund
- Smiling Cove Operations and Maintenance Fund
- Law Revision Commission Revolving Fund
- CRM Publication Fund
- Tinian Municipal School Fund
- Department of Corrections Revolving Fund
- Miscellaneous Expendable Trust Fund
- Agriculture Revolving Fund
- Public Utilities Commission Fund
- Soil and Water Conservation Fund

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Schedule of Balance Sheet Accounts
General Fund
September 30, 2012

	General	NMTIT Rebate Trust	Commonwealth Museum	Human Resources Development Trust	Micronesian Garment Manufacturing	Governor's Education Initiative	Debt Service	Miscellaneous	Total
<u>Assets</u>									
Cash and cash equivalents	\$ 1,792,091	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,792,091
Time certificates of deposit	49	-	-	-	-	-	-	-	49
Investments	2,500,000	-	-	-	-	-	-	-	2,500,000
Restricted cash and cash equivalents	13,849,138	-	-	-	-	-	704,231	-	14,553,369
Receivables, net:									
Taxes	5,544,958	4,961,575	-	-	-	-	-	-	10,506,533
General	598,101	-	-	-	-	-	-	-	598,101
Due from other funds	8,082,374	-	-	-	-	-	-	-	8,082,374
Due to/from General Funds	(41,789,001)	40,981,119	(94,769)	128,737	456,655	17	-	317,242	-
Advances	822,534	-	-	-	-	-	-	-	822,534
Inventories	232,387	-	-	-	-	-	-	-	232,387
	<u>\$ (8,367,369)</u>	<u>\$ 45,942,694</u>	<u>\$ (94,769)</u>	<u>\$ 128,737</u>	<u>\$ 456,655</u>	<u>\$ 17</u>	<u>\$ 704,231</u>	<u>\$ 317,242</u>	<u>\$ 39,087,438</u>
<u>Liabilities and Fund Balances (Deficit)</u>									
Liabilities:									
Accounts payable	\$ 3,690,361	\$ -	\$ 769	\$ 283	\$ -	\$ -	\$ -	\$ 2,643	\$ 3,694,056
Tax rebates payable	-	36,580,743	-	-	-	-	-	-	36,580,743
Recovery rebates payable	399,298	-	-	-	-	-	-	-	399,298
Other liabilities and accruals	2,507,015	-	8,239	60,565	-	-	-	-	2,575,819
Claims and judgments payable	31,309,561	-	-	-	-	-	-	-	31,309,561
Due to other funds	5,646,578	9,361,951	-	-	-	-	-	453,519	15,462,048
Due to component units	22,361,902	-	-	-	-	-	-	-	22,361,902
Total liabilities	<u>65,914,715</u>	<u>45,942,694</u>	<u>9,008</u>	<u>60,848</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>456,162</u>	<u>112,383,427</u>
Fund balances (deficit):									
Non-spendable	2,732,387	-	-	-	-	-	-	-	2,732,387
Restricted	2,257,765	-	-	-	-	-	-	-	2,257,765
Unassigned	(79,272,236)	-	(103,777)	67,889	456,655	17	704,231	(138,920)	(78,286,141)
Total fund balances (deficit)	<u>(74,282,084)</u>	<u>-</u>	<u>(103,777)</u>	<u>67,889</u>	<u>456,655</u>	<u>17</u>	<u>704,231</u>	<u>(138,920)</u>	<u>(73,295,989)</u>
	<u>\$ (8,367,369)</u>	<u>\$ 45,942,694</u>	<u>\$ (94,769)</u>	<u>\$ 128,737</u>	<u>\$ 456,655</u>	<u>\$ 17</u>	<u>\$ 704,231</u>	<u>\$ 317,242</u>	<u>\$ 39,087,438</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances (Deficit)
General Fund
For the Year Ended September 30, 2012

	General	NMTIT Rebate Trust	Commonwealth Museum	Human Resources Development Trust	Micronesia Garment Manufacturing	Governor's Education Initiative	Debt Service	Miscellaneous	Eliminations	Total
Revenues:										
Taxes	\$ 121,249,627	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 121,249,627
Licenses and fees	6,830,259	-	2,221	-	-	-	-	-	-	6,832,480
Contributions from component units	2,223,634	-	-	-	-	-	-	-	-	2,223,634
Charges for sales and services	1,373,573	-	1,029	-	-	-	-	37,561	-	1,412,163
Interest and dividends	259,787	-	-	-	-	-	82	976	-	260,845
Other	1,544,295	-	9,795	-	-	-	-	450	-	1,554,540
Total revenues	133,481,175	-	13,045	-	-	-	82	38,987	-	133,533,289
Expenditures:										
Current:										
Public safety and law enforcement	18,332,706	-	-	-	-	-	-	-	-	18,332,706
General government	18,331,394	-	-	-	-	-	-	-	-	18,331,394
Utilities	8,880,619	-	-	-	-	-	-	-	-	8,880,619
Other elected officials	6,345,795	-	-	-	-	-	-	-	-	6,345,795
Legislative branch	5,210,254	-	-	-	-	-	-	-	-	5,210,254
Health	4,065,255	-	-	-	-	-	-	-	-	4,065,255
Judicial branch	3,948,854	-	-	-	-	-	-	17,271	-	3,966,125
Lands and natural resources	2,747,803	-	-	-	-	-	-	21,216	-	2,769,019
Community and social services	2,139,927	-	87,090	123,420	-	-	-	-	-	2,350,437
Education	1,351,824	-	-	-	-	-	-	-	-	1,351,824
Economic development	807,911	-	-	-	-	-	-	-	-	807,911
Payments to:										
Public School System	29,669,461	-	-	-	-	-	-	-	-	29,669,461
Marianas Visitors Authority	7,444,838	-	-	-	-	-	-	-	-	7,444,838
Commonwealth Healthcare Corporation	5,176,414	-	-	-	-	-	-	-	-	5,176,414
Northern Marianas College	4,813,155	-	-	-	-	-	-	-	-	4,813,155
Pension (and Other Employee Benefit) Trust Fund	556,532	-	-	-	-	-	-	-	-	556,532
Debt service:										
Interest and fiscal charges	32,378	-	-	-	-	-	5,100,532	-	-	5,132,910
Principal retirement	-	-	-	-	-	-	3,430,000	-	-	3,430,000
Capital outlay:										
Public works	2,684,188	-	-	-	-	-	-	-	-	2,684,188
Total expenditures	122,539,308	-	87,090	123,420	-	-	8,530,532	38,487	-	131,318,837
Excess (deficiency) of revenues over (under) expenditures	10,941,867	-	(74,045)	(123,420)	-	-	(8,530,450)	500	-	2,214,452
Other financing sources (uses):										
Operating transfers in	4,958,502	-	-	-	-	-	8,530,358	-	(8,530,358)	4,958,502
Operating transfers out	(11,793,115)	-	-	-	-	-	-	-	8,530,358	(3,262,757)
Total other financing sources (uses), net	(6,834,613)	-	-	-	-	-	8,530,358	-	-	1,695,745
Extraordinary item:										
Retirement Fund obligations under Settlement Agreement	267,089,307	-	-	-	-	-	-	-	-	267,089,307
Net change in fund balances (deficit)	271,196,561	-	(74,045)	(123,420)	-	-	(92)	500	-	270,999,504
Fund balances (deficit) at beginning of year	(345,478,645)	-	(29,732)	191,309	456,655	17	704,323	(139,420)	-	(344,295,493)
Fund balances (deficit) at end of year	\$ (74,282,084)	\$ -	\$ (103,777)	\$ 67,889	\$ 456,655	\$ 17	\$ 704,231	\$ (138,920)	\$ -	\$ (73,295,989)

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
MAJOR GOVERNMENTAL FUND - GRANTS ASSISTANCE FUND

September 30, 2012

The Grants Assistance Fund is used to account for all transactions related to grants received from various U.S. departments.

DOI Capital Projects Fund

This fund accounts for various capital projects funded through grant awards from the U.S. Department of the Interior.

Federal Grants Fund

This fund accounts for all financial transactions related to direct grants received from various U.S. departments.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet
Grants Assistance Fund
September 30, 2012

	Federal Grants	DOI Capital Projects	Total
<u>Assets</u>			
Restricted cash and cash equivalents	\$ 185,265	\$ 2,806,129	\$ 2,991,394
Receivables, net of allowance for uncollectibles:			
Federal agencies	10,046,537	438,394	10,484,931
Other	-	12,831	12,831
Due from other funds	107,957	3,467,582	3,575,539
Inventories	1,074,500	-	1,074,500
	<u>\$ 11,414,259</u>	<u>\$ 6,724,936</u>	<u>\$ 18,139,195</u>
<u>Liabilities and Fund Balances (Deficit)</u>			
Liabilities:			
Accounts payable	\$ 3,373,251	\$ 777,714	\$ 4,150,965
Other liabilities and accruals	1,246,035	900,225	2,146,260
Due to other funds	5,811,478	21,900	5,833,378
Deferred revenues	1,074,500	-	1,074,500
Total liabilities	<u>11,505,264</u>	<u>1,699,839</u>	<u>13,205,103</u>
Fund balances (deficit):			
Restricted	-	5,025,097	5,025,097
Unassigned	(91,005)	-	(91,005)
Total fund balances (deficit)	<u>(91,005)</u>	<u>5,025,097</u>	<u>4,934,092</u>
	<u>\$ 11,414,259</u>	<u>\$ 6,724,936</u>	<u>\$ 18,139,195</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)
 Grants Assistance Fund
 For the Year Ended September 30, 2012

	Federal Grants	DOI Capital Projects	Total
Revenues:			
Federal contributions	\$ 78,413,609	\$ 6,605,547	\$ 85,019,156
Licenses and fees	171,760	-	171,760
Interest and dividends	-	325	325
Other	357,512	-	357,512
Total revenues	<u>78,942,881</u>	<u>6,605,872</u>	<u>85,548,753</u>
Expenditures:			
Current:			
Health	28,790,628	194,340	28,984,968
Community and social services	18,160,301	117,603	18,277,904
General government	8,510,261	415,512	8,925,773
Lands and natural resources	5,767,336	-	5,767,336
Public safety and law enforcement	5,585,601	-	5,585,601
Utilities	-	2,064,828	2,064,828
Education	33,010	614,232	647,242
Economic development	9,050	452,798	461,848
Payments to:			
Public School System	5,788,678	-	5,788,678
Northern Marianas College	1,972,826	-	1,972,826
Capital outlay:			
Public works	6,398,362	2,437,809	8,836,171
Utilities - Capital Projects	<u>-</u>	<u>838,213</u>	<u>838,213</u>
Total expenditures	<u>81,016,053</u>	<u>7,135,335</u>	<u>88,151,388</u>
Deficiency of revenues under expenditures	<u>(2,073,172)</u>	<u>(529,463)</u>	<u>(2,602,635)</u>
Other financing sources (uses):			
Operating transfers in	3,262,757	57,830	3,320,587
Operating transfers out	<u>(1,261,921)</u>	<u>-</u>	<u>(1,261,921)</u>
Total other financing sources (uses), net	<u>2,000,836</u>	<u>57,830</u>	<u>2,058,666</u>
Net change in fund balances (deficit)	(72,336)	(471,633)	(543,969)
Fund balances (deficit) at beginning of year	<u>(18,669)</u>	<u>5,496,730</u>	<u>5,478,061</u>
Fund balances (deficit) at end of year	<u>\$ (91,005)</u>	<u>\$ 5,025,097</u>	<u>\$ 4,934,092</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
MAJOR GOVERNMENTAL FUND - DEPARTMENT OF PUBLIC LANDS

September 30, 2012

On February 22, 2006, Public Law 15-02 was enacted to repeal Executive Order 94-03 as codified, in Public Law 10-57, 12-33 and 12-71 to create the Department of Public Lands (DPL) within the Executive Branch of the CNMI Government and to transfer the obligations and responsibilities of the Marianas Public Lands Authority to DPL. DPL is responsible for administration, use, leasing, development and disposition all those lands defined as public lands by N.M.I. Const. Art.XI.1 or any other provision of law, subject to the provisions of P.L. 15-02 and except as limited by transfers of freehold interest to individuals, entities, or other government agencies. DPL's authority does not extend to the issuance of land use permits and licenses, except as specifically provided for in P.L. 15-02 and does not limit in any respect the authority of other Commonwealth agencies to issue permits and licenses pursuant to their respective enabling legislation.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
MAJOR GOVERNMENTAL FUND - PRIVATE GRANTS FUND

September 30, 2012

This fund accounts for all financial transactions related to miscellaneous grants that are not directly from the U.S. government. Included in this fund are transactions relating to grants from world organizations and private business organizations in the CNMI.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2012

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Commonwealth Arts Council Fund

This fund was established through Executive Order No. 26 pursuant to Section 15 Article III of the Constitution. The fund accounts for financial transactions of the Commonwealth Arts Council related to the receipt of donations and gifts and the use of those funds.

Oil Overcharge Fund

This fund accounts for payments awarded to the 50 States, and U.S. territories and possessions, by the U.S. courts in settlement of charges against several U.S. oil companies that had violated U.S. Department of Energy price control regulations by overcharging their distributors and customers. The CNMI has received oil overcharge funds from the Warner, Exxon, and Stripper Well Cases that are restricted for use in several energy related approved programs.

Commonwealth Nonresident Workers' Fee Fund

The Commonwealth Nonresident Workers Fee Fund was established pursuant to Public Law No. 5-32, as amended by Public Law No. 10-66. The fund accounts for the collection of fees related to application and renewal certificates of nonresident workers and their immediate relatives. In accordance with the enabling legislation, the fees collected are to be appropriated by the CNMI Legislature for several educational and training programs administered through the Northern Marianas College and the Mayors' offices.

Commonwealth Alien Deportation Fund

The Commonwealth Alien Deportation Fund was established pursuant to Public Law No. 10-1. The fund accounts for the collection of nonresident workers' fees designated for the fund and for the expenditure of those funds in detecting and deporting illegal aliens.

Judicial Building Fund

This fund was created by Public Law No. 7-25 to account for financing restricted to the construction and furnishing of the CNMI Supreme Court and Superior Court building. At September 30, 2012, the project was completed. Revenues generated by the court will be used to finance the debt service on the loan with NMIRF.

Local Revenue Fund

Accounts for revenues generated under local senatorial district laws for use by the local governments of Saipan, Rota and Tinian. Such revenues are based on Saipan local laws 11-1 and 11-2 and Rota local law 11-1.

Saipan Trust Fund

The Saipan Trust Fund accounts for funds from the United States Government to develop the Saipan Marine and Fishing Complex.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2012

Tobacco Settlement Trust Fund

Pursuant to Public Law No. 13-37, the Tobacco Settlement Trust Fund was established to account for all monies received from the Master Settlement Agreement. The monies shall be used to implement programs and services to achieve the goals stated in Section 3 of Public Law 13-37.

Tobacco Control Fund

This fund was created by Public Law 13-38 to amend 4 CMC § 1402(A)(16) through (20) to restrict cigarette smoking and for other purposes.

Solid Waste Revolving Fund

This fund was created by Public Law 13-42 to provide financial support to the Commonwealth Solid Waste Management Systems and for other purposes.

Managaha Landing Fee Fund

This fund was established by Public Law 11-64 to account for revenues collected from commercial carriers who charge a fee to transport nonresident passengers to Managaha Island. Such fees are to be deposited into the Fund and will be expended exclusively on projects and for the construction, maintenance and operation of the Saipan Cultural and Performing Arts Center, the Saipan Youth Program, the Division of Public Lands, the Commonwealth Museum, and for the cultural heritage activities of the Indigenous and Carolinian Affairs Offices, in accordance with appropriations made by the Saipan and Northern Islands Legislative Delegation.

Qualifying Certificate Reserve Fund

This fund was established to account for the financial transactions of the Qualifying Certificate program.

Miscellaneous Special Revenue Funds

The miscellaneous special revenue fund combines the following:

- Zoning Board Revolving Fund
- Joeten-Kiyu Library Revolving Fund
- Animal Health Revolving Fund
- Fish and Game Revolving Fund
- Tobacco License Fee Fund
- Probation Services Fund
- Outer Cover Marina Fund
- Special Disabilities Fund

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

September 30, 2012

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

Commonwealth Development Authority Fund

This fund accounts for various capital projects funded by proceeds of general obligation bonds issued by the Commonwealth Development Authority.

Infrastructure Tax Fund

This fund was created by Public Law No. 8-23 which restricts the 2% Developers' Tax for funding of infrastructure by senatorial delegation.

Public Works Grants Fund

This fund accounts for various capital projects administered by the CNMI Department of Public Works and funded by the U.S. Department of Transportation.

American Memorial Park Fund

This fund accounts for capital projects at the American Memorial Park. These projects are partially funded by the earnings of the Marianas Public Land Trust - Park Fund, a nonexpendable trust fund.

Local Capital Projects Fund

This fund accounts for various capital projects funded by appropriations contained in Annual Appropriations Acts.

Private Capital Grants Fund

This fund accounts for various capital projects funded by various grants that are not directly from the U.S. government. Included in this fund are transactions relating to capital project grants from CNMI agencies and private business organizations in the CNMI.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2012

	Special Revenue Funds				
	Commonwealth Arts Council	Oil Overcharge	Commonwealth Nonresident Workers' Fee	Commonwealth Alien Deportation	Judicial Building
<u>Assets</u>					
Restricted cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables, net of allowance for uncollectibles:					
Federal	-	-	-	-	-
Other	-	-	-	-	-
Due from other funds	6,033	47,857	-	-	460,367
Due from Pension (and Other Employee Benefit) Trust Fund	-	-	-	-	500
	<u>\$ 6,033</u>	<u>\$ 47,857</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 460,867</u>
<u>Liabilities and Fund Balances (Deficit)</u>					
Liabilities:					
Accounts payable	\$ 5,165	\$ -	\$ -	\$ 9,444	\$ -
Other liabilities and accruals	-	-	11,408	61	-
Due to other funds	-	-	174,084	19,368	-
Deferred revenues	-	47,499	-	-	-
Total liabilities	<u>5,165</u>	<u>47,499</u>	<u>185,492</u>	<u>28,873</u>	<u>-</u>
Commitments and contingencies					
Fund balances (deficit):					
Restricted	868	358	-	-	460,867
Unassigned	-	-	(185,492)	(28,873)	-
Total fund balances (deficit)	<u>868</u>	<u>358</u>	<u>(185,492)</u>	<u>(28,873)</u>	<u>460,867</u>
	<u>\$ 6,033</u>	<u>\$ 47,857</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 460,867</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet, Continued
Nonmajor Governmental Funds
September 30, 2012

Special Revenue Funds								
Local Revenue	Saipan Trust	Tobacco Settlement Trust	Tobacco Control	Solid Waste Revolving	Managaha Landing Fee	Qualifying Certificate Reserve	Miscellaneous	Total Special Revenue Funds
\$ -	\$ 6,917	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,917
-	-	-	-	-	-	-	-	-
3,239,904	16,548	1,209,830	(1,780)	387,226	39,580	49,548	1,786,068	6,135,697
-	-	-	-	-	-	-	-	500
<u>\$ 3,239,904</u>	<u>\$ 23,465</u>	<u>\$ 1,314,176</u>	<u>\$ (1,780)</u>	<u>\$ 387,226</u>	<u>\$ 39,580</u>	<u>\$ 49,548</u>	<u>\$ 1,786,068</u>	<u>\$ 7,352,944</u>
\$ 149,086	\$ -	\$ -	\$ 5,616	\$ 187,204	\$ -	\$ -	\$ 7,999	\$ 364,514
-	19,338	-	-	90,546	-	-	604,278	725,631
-	-	-	-	-	-	-	-	193,452
-	-	-	-	-	-	-	-	47,499
<u>149,086</u>	<u>19,338</u>	<u>-</u>	<u>5,616</u>	<u>277,750</u>	<u>-</u>	<u>-</u>	<u>612,277</u>	<u>1,331,096</u>
3,090,818	4,127	1,314,176	-	109,476	39,580	49,548	1,173,791	6,243,609
-	-	-	(7,396)	-	-	-	-	(221,761)
<u>3,090,818</u>	<u>4,127</u>	<u>1,314,176</u>	<u>(7,396)</u>	<u>109,476</u>	<u>39,580</u>	<u>49,548</u>	<u>1,173,791</u>	<u>6,021,848</u>
<u>\$ 3,239,904</u>	<u>\$ 23,465</u>	<u>\$ 1,314,176</u>	<u>\$ (1,780)</u>	<u>\$ 387,226</u>	<u>\$ 39,580</u>	<u>\$ 49,548</u>	<u>\$ 1,786,068</u>	<u>\$ 7,352,944</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet, Continued
Nonmajor Governmental Funds
September 30, 2012

	Capital Projects Funds						Total Capital Projects Funds	Total Nonmajor Governmental Funds
	Commonwealth Development Authority	Infrastructure Tax	Public Works Grants	American Memorial Park	Local Capital Projects	Private Capital Grants		
<u>Assets</u>								
Restricted cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 129,965	\$ -	\$ 129,965	\$ 136,882
Receivables, net of allowance for uncollectibles:								
Federal	-	-	1,792,669	-	-	-	1,792,669	1,792,669
Other	-	-	-	-	-	-	-	1,209,830
Due from other funds	52,405	-	-	-	650	405,093	458,148	6,593,845
Due from Pension (and Other Employee Benefit) Trust Fund	-	-	-	-	-	-	-	500
	<u>\$ 52,405</u>	<u>\$ -</u>	<u>\$ 1,792,669</u>	<u>\$ -</u>	<u>\$ 130,615</u>	<u>\$ 405,093</u>	<u>\$ 2,380,782</u>	<u>\$ 9,733,726</u>
<u>Liabilities and Fund Balances (Deficit)</u>								
Liabilities:								
Accounts payable	\$ -	\$ 38,301	\$ 869,604	\$ -	\$ -	\$ 31,574	\$ 939,479	\$ 1,303,993
Other liabilities and accruals	-	-	56,995	(12,760)	-	-	44,235	769,866
Due to other funds	-	405,170	8,296	12,760	3,505	-	429,731	623,183
Deferred revenues	52,569	-	-	-	-	-	52,569	100,068
Total liabilities	<u>52,569</u>	<u>443,471</u>	<u>934,895</u>	<u>-</u>	<u>3,505</u>	<u>31,574</u>	<u>1,466,014</u>	<u>2,797,110</u>
Fund balances (deficit):								
Restricted	-	-	857,774	-	127,110	373,519	1,358,403	7,602,012
Unassigned	(164)	(443,471)	-	-	-	-	(443,635)	(665,396)
Total fund balances (deficit)	<u>(164)</u>	<u>(443,471)</u>	<u>857,774</u>	<u>-</u>	<u>127,110</u>	<u>373,519</u>	<u>914,768</u>	<u>6,936,616</u>
	<u>\$ 52,405</u>	<u>\$ -</u>	<u>\$ 1,792,669</u>	<u>\$ -</u>	<u>\$ 130,615</u>	<u>\$ 405,093</u>	<u>\$ 2,380,782</u>	<u>\$ 9,733,726</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Revenues, Expenditures
and Changes in Fund Balances (Deficit)
Nonmajor Governmental Funds
For the Year Ended September 30, 2012

	Special Revenue Funds				
	Commonwealth Arts Council	Oil Overcharge	Commonwealth Nonresident Workers' Fee	Commonwealth Alien Deportation	Judicial Building
Revenues:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and fees	-	-	1,740	-	773,178
Contributions from component units	-	-	-	-	-
Interest and dividends	-	120	-	-	90,735
Charges for sales and services	-	-	-	-	-
Other	26,535	-	-	-	-
Total revenues	26,535	120	1,740	-	863,913
Expenditures:					
Current:					
Education	-	-	-	-	-
Public safety and law enforcement	-	-	175,509	3,416	-
Community and social services	24,546	-	-	-	-
Health	-	-	-	-	-
Lands and natural resources	-	-	-	-	-
General government	-	-	-	-	-
Other elected officials	-	-	-	-	-
Debt service:					
Interest and fiscal charges	-	-	-	-	456,560
Principal retirement	-	-	-	-	177,878
Capital outlay:					
Public works	-	-	-	-	-
Utilities - Capital Projects	-	-	-	-	-
Total expenditures	24,546	-	175,509	3,416	634,438
Excess (deficiency) of revenues over (under) expenditures	1,989	120	(173,769)	(3,416)	229,475
Other financing sources (uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Total other financing sources (uses), net	-	-	-	-	-
Net change in fund balances (deficit)	1,989	120	(173,769)	(3,416)	229,475
Fund balances (deficit) at beginning of year	(1,121)	238	(11,723)	(25,457)	231,392
Fund balances (deficit) at end of year	\$ 868	\$ 358	\$ (185,492)	\$ (28,873)	\$ 460,867

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Revenues, Expenditures
and Changes in Fund Balances (Deficit), Continued
Nonmajor Governmental Funds
For the Year Ended September 30, 2012

Special Revenue Funds								
Local Revenue	Saipan Trust	Tobacco Settlement Trust	Tobacco Control	Solid Waste Revolving	Managaha Landing Fee	Qualifying Certificate Reserve	Miscellaneous	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ 1,276,259	\$ 1,865,768	\$ -	\$ -	\$ -	\$ 3,142,027
3,597,245	-	-	-	427,001	-	-	149,329	4,948,493
123,362	-	-	-	-	-	-	-	123,362
-	-	-	-	-	-	-	-	90,855
-	-	-	-	-	-	-	24,485	24,485
5,912	-	1,643,479	-	-	-	-	372,659	2,048,585
3,726,519	-	1,643,479	1,276,259	2,292,769	-	-	546,473	10,377,807
1,920,065	-	-	-	-	-	-	-	1,920,065
-	-	-	-	-	-	-	66,832	245,757
218,090	-	-	42,785	-	-	-	11,044	296,465
112,868	-	-	9,989	-	-	-	-	122,857
-	-	-	-	-	-	-	116,463	116,463
92,615	-	-	-	-	-	-	-	92,615
83,482	-	-	-	-	-	-	-	83,482
-	-	-	-	-	-	-	-	456,560
-	-	-	-	-	-	-	-	177,878
268,862	-	-	-	1,461,240	-	-	-	1,730,102
61,548	-	-	-	-	-	-	-	61,548
2,757,530	-	-	52,774	1,461,240	-	-	194,339	5,303,792
968,989	-	1,643,479	1,223,485	831,529	-	-	352,134	5,074,015
97,471	-	-	35,000	-	-	-	-	132,471
(215,832)	-	(1,540,301)	(1,019,916)	(754,783)	-	-	-	(3,530,832)
(118,361)	-	(1,540,301)	(984,916)	(754,783)	-	-	-	(3,398,361)
850,628	-	103,178	238,569	76,746	-	-	352,134	1,675,654
2,240,190	4,127	1,210,998	(245,965)	32,730	39,580	49,548	821,657	4,346,194
\$ 3,090,818	\$ 4,127	\$ 1,314,176	\$ (7,396)	\$ 109,476	\$ 39,580	\$ 49,548	\$ 1,173,791	\$ 6,021,848

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Revenues, Expenditures
and Changes in Fund Balances (Deficit), Continued
Nonmajor Governmental Funds
For the Year Ended September 30, 2012

	Capital Projects Funds						Total Capital Projects Funds	Total Nonmajor Governmental Funds
	Commonwealth Development Authority	Infrastructure Tax	Public Works Grants	American Memorial Park	Local Capital Projects	Private Capital Grants		
Revenues:								
Federal contributions	\$ -	\$ -	\$ 7,316,650	\$ -	\$ -	\$ -	\$ 7,316,650	\$ 7,316,650
Taxes	-	46,979	-	-	-	-	46,979	3,189,006
Licenses and fees	-	2,348	-	-	-	-	2,348	4,950,841
Contributions from component units	-	-	-	-	78,518	-	78,518	201,880
Interest and dividends	-	434	-	-	-	-	434	91,289
Charges for sales and services	-	-	-	-	-	-	-	24,485
Other	-	20,706	-	-	-	-	20,706	2,069,291
Total revenues	-	70,467	7,316,650	-	78,518	-	7,465,635	17,843,442
Expenditures by account:								
Current:								
Education	-	85,788	-	-	-	-	85,788	2,005,853
Public safety and law enforcement	-	34,759	-	-	-	-	34,759	280,516
Community and social services	-	-	-	-	-	-	-	296,465
Health	-	-	-	-	144,058	-	144,058	266,915
Lands and natural resources	-	-	-	-	-	-	-	116,463
General government	-	-	-	-	-	-	-	92,615
Other elected officials	-	-	-	-	-	-	-	83,482
Debt service:								
Interest and fiscal charges	-	-	-	-	-	-	-	456,560
Principal retirement	-	-	-	-	-	-	-	177,878
Capital outlay:								
Public works	-	65,473	6,458,876	-	-	-	6,524,349	8,254,451
Utilities - Capital Projects	-	-	-	-	-	-	-	61,548
Total expenditures	-	186,020	6,458,876	-	144,058	-	6,788,954	12,092,746
Excess (deficiency) of revenues over (under) expenditures	-	(115,553)	857,774	-	(65,540)	-	676,681	5,750,696
Other financing sources (uses):								
Operating transfers in	-	218,579	-	-	65,532	-	284,111	416,582
Operating transfers out	-	(223,579)	-	-	-	-	(223,579)	(3,754,411)
Total other financing sources (uses), net	-	(5,000)	-	-	65,532	-	60,532	(3,337,829)
Net change in fund balances (deficit)	-	(120,553)	857,774	-	(8)	-	737,213	2,412,867
Fund balances (deficit) at beginning of year	(164)	(322,918)	-	-	127,118	373,519	177,555	4,523,749
Fund balances (deficit) at end of year	\$ (164)	\$ (443,471)	\$ 857,774	\$ -	\$ 127,110	\$ 373,519	\$ 914,768	\$ 6,936,616

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
FIDUCIARY FUNDS

September 30, 2012

Pension and Other Employee Benefits Trust Funds

Pension and other employee benefit trust funds are used to account for a Public Employee Retirement System, health and life benefits and workers' compensation benefits. These funds use the accrual basis of accounting and have a capital maintenance measurement focus. The basic financial statements reflect the balances and activity of the pension and other employee benefit trust fund of the Government, which are described below.

Northern Mariana Islands Retirement Fund (NMIRF)

NMIRF was established as a public corporation on January 18, 1980, under Public Law No. 1-43, amended by Public Law Nos. 2-18, 2-47, 3-99 and 4-20, and Constitutional Amendment No. 19 to provide pension benefits to all government civil service employees including those working for government autonomous agencies, CNMI elected officials, and employees of the former Trust Territory of the Pacific Islands, who are U.S. citizens pursuant to the CNMI Constitution. On May 7, 1989, Public Law No. 6-17, the Northern Mariana Islands Retirement Fund Act of 1988, repealed the above mentioned laws and re-established NMIRF as an autonomous agency and a public corporation of the CNMI to provide retirement security and other benefits to government employees, their spouses and dependents, former Governors and Lieutenant Governors, and to provide for an actuarially sound, locally funded pension system pursuant to the Agreement of the Special Representative on Future United States Financial Assistance for the Northern Mariana Islands, and in accordance with Constitutional provisions protecting the rights of government employees. Public Law No. 6-17 was later amended by Public Law Nos. 6-41, 8-24, 8-30, 8-31, 8-39, 9-25, 9-45, 10-8, 10-19 and 11-9. NMIRF is administered by a seven-member Board of Trustees, appointed by the Governor of the CNMI with the advice and consent of the CNMI Senate.

CNMI Workers' Compensation Commission

The CNMI Workers' Compensation Commission (WCC) was created by Public Law No. 6-33. The law provides financial protection to both employers and employees for the catastrophic effects of work related injuries, illnesses or deaths. It is a social insurance plan that compensates employees for disabilities incurred from work related injuries regardless of fault. It is also a no-fault insurance program, solely paid for by the employer. The WCC ensures that private sector employers obtain and provide workers' compensation insurance coverage for their employees. The WCC also administers the CNMI government's workers' compensation self-insurance program. The Board of Trustees of the Northern Mariana Islands Retirement Fund (NMIRF) administers the WCC.

CNMI Group Health and Life Insurance Trust Fund

This fund was created by Public Law No. 10-19 to ensure that CNMI Government employees are provided with medical and life insurance benefits, and that funds collected and disbursed for these purposes are administered in a fiscally sound and professionally accountable manner. The Board of Trustees of NMIRF administers the fund.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
FIDUCIARY FUNDS

September 30, 2012

Tinian Land Condemnation Fund

As part of the U.S. Military's lease of Tinian, the CNMI Government, the former Marianas Public Land Corporation and the U.S. Government, setup an escrow fund pending the obtaining of all the private land holdings on Tinian within the leased area. Subsequently, the escrow was jointly terminated wherein it was mutually agreed the funds could be used by the CNMI to acquire the private land holdings through direct acquisition or legal condemnation proceedings. This agency fund represents the net amount available after the costs of land acquisitions. Land condemnation proceedings are still in process.

Security Deposit Fund

The Security Deposit Fund was established to account for security deposits received from persons licensed to engage in the business of selling foreign currency notes or receiving money for the purpose of transmitting the same or its equivalent to any country outside the CNMI (pursuant to 1 CMC 2, Section 2454 and 4 CMC 6, Sections 6351 and 6108) and for security deposits received from alien insurers (pursuant to Public Law No. 3-107).

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Fiduciary Net Assets (Deficiency)
Fiduciary Funds
September 30, 2012

	Pension (and Other Employee Benefit) Trust Fund			
	Northern Mariana Islands Retirement Fund	CNMI Group Health and Life Insurance Trust	CNMI Workers' Compensation Commission	Total
<u>Assets</u>				
Cash and cash equivalents	\$ 7,630,685	\$ 2,380,035	\$ 166,359	\$ 10,177,079
Receivables:				
Loans	5,707,338	-	-	5,707,338
Notes	7,341,522	-	-	7,341,522
Benefits	7,526,082	-	308,326	7,834,408
Interest and dividends	575,174	-	-	575,174
Other	1,158,832	56	6,153	1,165,041
	<u>22,308,948</u>	<u>56</u>	<u>314,479</u>	<u>22,623,483</u>
Due from General Fund	259,610,054	-	18,429	259,628,483
Due from component units	59,093,176	-	-	59,093,176
Less allowance for uncollectible receivables	<u>(240,005,019)</u>	<u>-</u>	<u>-</u>	<u>(240,005,019)</u>
	<u>78,698,211</u>	<u>-</u>	<u>18,429</u>	<u>78,716,640</u>
Due from Nonmajor Special Revenue Funds	-	-	603,878	603,878
Prepaid items	8,958	-	-	8,958
Investments, at fair market value:				
Equity securities	1,696,361	-	-	1,696,361
Corporate debt securities	107,894,996	-	-	107,894,996
U.S. Government securities	-	-	864,426	864,426
Mutual funds	137,400,507	-	-	137,400,507
Cash equivalents	18	-	-	18
	<u>246,991,882</u>	<u>-</u>	<u>864,426</u>	<u>247,856,308</u>
Restricted assets	-	-	133,380	133,380
Capital assets	3,847,902	9,667	2,753	3,860,322
Total assets	<u>359,486,586</u>	<u>2,389,758</u>	<u>2,103,704</u>	<u>363,980,048</u>
<u>Liabilities and Other Credits</u>				
Accounts payable	321,373	18,768,965	68,767	19,159,105
Other liabilities and accruals	448,227	-	-	448,227
Due to Judicial Building Fund	500	-	-	500
Deferred revenue	86,275,759	-	326,941	86,602,700
Total liabilities and other credits	<u>87,045,859</u>	<u>18,768,965</u>	<u>395,708</u>	<u>106,210,532</u>
Net assets (deficiency):				
Held in trust for pension benefits	272,440,727	-	-	272,440,727
Held in trust for medical and life insurance benefits	-	(16,379,207)	-	(16,379,207)
Held in trust for workers' compensation benefits and other purposes	-	-	1,707,996	1,707,996
Total net assets (deficiency)	<u>\$ 272,440,727</u>	<u>\$ (16,379,207)</u>	<u>\$ 1,707,996</u>	<u>\$ 257,769,516</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
Combining Statement of Changes in Fiduciary Net Assets (Deficiency)
Fiduciary Funds
Year Ended September 30, 2012

	<u>Pension (and Other Employee Benefit) Trust Fund</u>			
	Northern Mariana Islands Retirement Fund	CNMI Group Health and Life Insurance Trust	CNMI Workers' Compensation Commission	Total
<u>Additions</u>				
Contributions:				
Employer	\$ 40,665,322	\$ -	\$ -	\$ 40,665,322
Employee	12,496,466	-	-	12,496,466
Revenues:				
Premiums	-	-	45,802	45,802
Rent income and other	595,090	594,943	15,992	1,206,025
Total contributions and revenues	<u>53,756,878</u>	<u>594,943</u>	<u>61,794</u>	<u>54,413,615</u>
Net investment earnings:				
Net change in fair value	10,948,996	-	137,869	11,086,865
Interest	6,505,641	-	-	6,505,641
Total investment earnings	<u>17,454,637</u>	<u>-</u>	<u>137,869</u>	<u>17,592,506</u>
Less: investment expense	<u>292,341</u>	<u>-</u>	<u>-</u>	<u>292,341</u>
Net investment earnings	<u>17,162,296</u>	<u>-</u>	<u>137,869</u>	<u>17,300,165</u>
Other financing sources:				
Transfer in	495,898	-	222,315	718,213
Total additions	<u>71,415,072</u>	<u>594,943</u>	<u>421,978</u>	<u>72,431,993</u>
<u>Deductions</u>				
Benefits	73,872,024	-	-	73,872,024
General and administrative	3,757,623	62,815	220,264	4,040,702
Bad debts	25,677,617	-	-	25,677,617
Refunds and withdrawals	5,248,493	-	-	5,248,493
Total deductions	<u>108,555,757</u>	<u>62,815</u>	<u>220,264</u>	<u>108,838,836</u>
Change in net assets (deficiency)	(37,140,685)	532,128	201,714	(36,406,843)
Net assets (deficiency) at beginning of year	<u>309,581,412</u>	<u>(16,911,335)</u>	<u>1,506,282</u>	<u>294,176,359</u>
Net assets (deficiency) at end of year	<u>\$ 272,440,727</u>	<u>\$ (16,379,207)</u>	<u>\$ 1,707,996</u>	<u>\$ 257,769,516</u>

See Accompanying Independent Auditors' Report.